

FINANCIAL TIMES

World Business Newspaper <http://www.FT.com>

MONDAY MARCH 23 1998



Good men in Africa
A new generation of
leaders courts the US
Page 5



Workplace creativity
A little craziness often
goes a long way
Lucy Kellaway Page 7



Futures trading
A new landscape beckons
with fewer exchanges
Page 15

Today's surveys
Switzerland, Economic
and monetary union
Separate sections

WORLD NEWS

French centre right
faces demand from
Le Pen to support
his bid for power

Jean-Marie Le Pen, leader of
France's far-right National Front, has
demanded centre-right support for
his bid to take charge of Provence-Alpes-Côte d'Azur, one of France's
largest regional assemblies. Five cen-
tre-right UDF members were sus-
pended from their party for accepting
NF support in recent polls. Page 16

Korean peace preparations collapse
A deal to lock North and South
Korea into a peace process unravelled
after informal talks in the Swiss
cheese-making village of Gruyères.
Page 17

Three die in airport accident
A Philippine Airlines aircraft overshot
a runway after landing in the central
Philippines, hitting buildings and kill-
ing at least three people on the
ground. Some of the 127 aboard the
Airbus 320 were seriously injured.

White House tactic criticised
Republicans criticised the White
House for invoking a seldom-used
constitutional privilege to prevent top
aides being questioned over the sex
scandal allegations dogging Presi-
dent Bill Clinton. Page 17

Butcher in Iraq
Chief UN weapons inspector Richard
Butler said disarmament experts
would complete their work swiftly if
Iraq maintained its "new spirit" of
co-operation. He was in Iraq for the
first time since the crisis over the
inspection of presidential sites.

Israel rejects peace initiative
Israel rejected a key element of a US
peace initiative aimed at breaking the
stalemate in Israeli-Palestinian peace
talks. The proposal was said to
involve Israel withdrawing from 13
per cent of the West Bank. Page 3

Belarus protest to take to streets
About 10,000 demonstrators
marched through the Belarusian cap-
ital Minsk protesting against govern-
ment plans to re-integrate the former
Soviet republic with Russia.

Chinese dissident accuse
Hong Kong
US-based Chinese dissident Wang
Bingzhang claimed Hong Kong immi-
gration authorities acted on Beijing's
instructions when they refused him
entry at the weekend. Hong Kong
denied Beijing was consulted.
Page 4

Greek airline strike planned
Olympic Airways staff are to stop
work for three hours tomorrow in
protest at the way the government
plans to revitalise the ailing Greek
airline. Page 3

Neighbours help Brazil fight fires
Venezuelan and Argentine firefighters
joined the international effort to put
out the fires sweeping Brazil's north-
ern Amazon region.

Kuwait oil minister named
Former Kuwait information minister
Sheik Saud al-Sabah, who was criti-
cised by Islamic lawmakers, was
appointed oil minister. Last week the
previous government resigned to
avert the Islamic move to oust him.

Mormons set free in Russia
Two US Mormon missionaries kid-
napped in southern Russia were
freed after four days. Church officials
said a \$300,000 ransom demand had
not been paid.

Flying the flag in Tinsel Town
The British government is joining
forces with the film industry to open
a Hollywood office that will support
British film makers in the US and tell
the big studios what the UK can offer
as a movie-making base. Page 6

Portugal's long lunch
Fifteen thousand people gathered on
a new 10-mile bridge across Lisbon's
River Tagus and ate seven tons of
bean stew on a wooden dining table
3.1 miles long. The \$1bn Vasco da
Gama bridge will be opened formally
next week.

BUSINESS NEWS

Regulators publish
guidelines to help
securities companies
tighten risk control

International securities regulators will
today publish guidelines for securities
companies and their supervisory
bodies on managing and controlling risk,
in an attempt to avoid disasters
such as the collapse of Barings, the
UK investment bank. Page 16

Astra, Swedish pharmaceuticals
group, may shift some research and
development operations overseas
because of high income tax and a
shortage of scientists in Sweden.
Page 17

Airbus Industrie, Toulouse-based
aircraft building consortium, said it
had received 179 orders, 90 of them
from three Latin American carriers
for A319 and A320 aircraft.

Genta and other Indonesian airlines,
hit by a fall in ticket sales and a col-
lapse of the rupiah, are trying to
renegotiate leasing payments and are
handing back some aircraft, airline
executives said. Page 4

Shell UK, British arm of the Anglo
Dutch oil company, is expected to
defer some North Sea oilfield devel-
opment projects. Page 17

Monument Oil & Gas, UK independent
exploration company, is expected to
announce a controversial deal that
will involve the export of oil through
Iran. Page 21

Beritelsuisse, German media
company, said it would make an
"important" strategic announcement,
but would not comment on specula-
tion that it was about to acquire a US
publishing house. Page 21

Rolls-Royce Motor Cars of the UK,
which is up for sale, has received
interest from a third German party
other than BMW and the Volkswagen
group, insiders close to the sale said.
Page 20

Hyundai Motor, largest of South
Korea's four carmakers, is consider-
ing a bid for bankrupt Kia Motors.
Page 22

Luigi Giudice, Italian financier, sold
his stakes in Cir and Codice, ending
speculation over the future of the two
holding companies of former Olivetti
chairman Carlo De Benedetti.
Page 21

Tractebel, Belgian energy and
engineering group, announced an
8.4 per cent increase in net profits
for 1997 to BFr16.4bn (\$436m).
Page 22

PowerScreen International's finance
director attended a meeting to dis-
cuss pricing problems at the North-
ern Irish engineer's Matra subsidiary
before PowerScreen issued shares
without announcing the difficulties.
Page 20

Metromail, US database company, is
to open talks with American Business
Information, Omaha-based business
information group that has topped an
agreed offer for Metromail by UK
mail order house Great Universal
Stores. Page 22

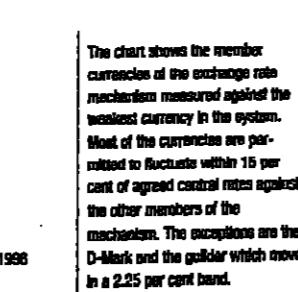
Moody's, US credit rating agency, cut
the rating for Japan's Long Term
Credit Bank to one level above "junk
bond" status. Page 22

The Chinese city of Shenyang has
offered to sell 50 troubled state
companies at the bargain price of one
yuan (about 12 cents) each as a way
of tackling the problem of restructuring
insolvent state-owned enter-
prises. Page 4

Malaysia's prime minister, Mahathir
Mohamed, indicated a willingness to
liberalise restrictions on foreign
participation in local banks. Page 4

Aeroparti di Roma, operator of
Rome's airports, won the bidding for
20 per cent of Airports Company
South Africa, which is being partly
privatised by the South African gov-
ernment. Page 20

EMS: GRID



Currencies, Page 25

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Oil producers in surprise deal to cut world supply

Up to 2m barrels a day could be
withdrawn to shore up prices

By Robert Currie in London

A surprise deal to shore up sagging world oil prices was
struck at secret talks in Riyadh
yesterday when Saudi Arabia,
Venezuela and Mexico agreed to
cut production. The deal could
pave the way for as much as
1.6m-2m barrels a day being with-
drawn from over-supplied world
oil markets.

Crude oil prices and oil com-
pany shares are expected to react
sharply today to news of the
agreement, which comes just
under a week after the price of
crude slipped to nine-year lows.
Yesterday's talks took place amid
forecasts of a collapse in the oil
price to single digits unless the
main producers took immediate
action to curb supply.

Joe Stanislaw, a director of
Cambridge Energy Research
Associates, a Paris-based consult-
ancy, yesterday predicted that
over time prices could rise by
\$3-\$5 a barrel from their present
level of just over \$13. But this
would depend on how much
unsold oil was at sea and whether
markets believed the agreement
would be adhered to.

The deal hammered out in the
Saudi capital yesterday marks the
first time since 1986 that
members of the Organisation of
Petroleum Exporting Countries and
non-Opec producers have
agreed to co-operate in stabilising
battered world oil markets.

Prices have fallen by more
than a third over the past five
months in reaction to a growing
global surplus and the prospect
of even greater amounts of Iraqi
oil exports under an expanded
oil-for-food programme.

It also marks at least a temporary
end to a bitter confrontation
between Saudi Arabia and Venezuela
over Opec's oil production
policy. Mexico is thought to have
played a key role in bringing the
two sides together.

Oil pact, Page 5
Lex, Page 16
Shell may defer projects, Page 17

Bonn opens Emu door to high-debt nations

By Lionel Barber and
Wolfgang Minchew in York

Germany has given a decisive
signal that it is ready to support
the inclusion of high-debt countries,
notably Italy, as founder-
members of European economic
and monetary union.

At a weekend meeting of Euro-
pean Union finance ministers in
York, UK, Theo Waigel, German
finance minister, unveiled a five-
point plan to accelerate debt
reduction and tighten budgetary
discipline among the likely Emu
block countries.

The plan is intended to reassess
a German public that remains
nervous about giving up the
D-Mark. However, a survey by
the country's chambers of
industry and trade, published
today, suggested that 54 per cent
of companies now believe the
euro's introduction is both "prob-
able and desirable". That compares
with 39 per cent a year ago
and only nine per cent in 1996.

Mr Waigel's plan also aims to
ensure stability in the financial
markets in the transition period
between the selection of Emu
members on May 3 and the
launch of the euro on January 1.

The European Commission and
the European Monetary Institute in
Frankfurt will release reports on
Wednesday on the progress that the
15 EU member countries have made
towards meeting the entry
conditions for Emu.

The reports are expected to
warn of the euro, Page 2
Editorial Comment, Page 15



Painter Emmanuel Boffo puts the finishing touches to a painting of Ghana's president Jerry Rawlings shaking hands with US president Bill Clinton. Mr Clinton will visit Accra, the Ghanaian capital, today at the start of his six-nation African tour in which he will "reach out to his peers" and signal the US's approval of the "new breed" of African leaders. Leaders start to lose gloss, Page 5; Editorial Comment and Observer, Page 15. Picture Reuters

AT&T link with Telecom Italia close to collapse

Boardroom resignation threatens groups' original equity swap deal

By Paul Bettis in Milan

AT&T's global alliance with
Telecom Italia, Italy's privatised
telecommunications group, is on
the verge of collapse following
the sudden resignation of the

mainly Italian board of Marc
Baker, AT&T's representative.

Telecom Italia yesterday said
negotiations were continuing with
the US telecoms group, but the
two companies appeared

resigned that their original deal
which included an equity swap,

was triggered by the sudden
resignation of the main Italian
board of Marc Baker.

The companies say the global
partnership, at best, will be only

a regional alliance in the Latin
American telecoms market.

The embarrassing disagree-

ment arose after new manage-

ment teams at both companies
attempted to renegotiate the origi-

nal deal.

AT&T and Telecom Italia
signed their original memoran-

dum of understanding last July.

AT&T subsequently agreed with

the Italian Treasury to acquire a

1.2 per cent stake for about

L700bn (\$390m) in the Italian
group as part of its privatisation
in October 1997.

In turn, Telecom Italia was to
acquire a stake in AT&T worth
the same amount.

Unisource, the European tele-
communications consortium

linked with AT&T, also agreed to
acquire a 12 per cent stake in
Telecom Italia. AT&T and Unisource
were granted a seat each on the privatised
Telecom Italia board.

However, some Italian officials
were not happy that Telecom Italia
would not be represented on the AT&T board.

Unisource is due to complete its
share deal at the end of June.

However, this transaction also

appears at risk as it is connected

with the AT&T agreement, even

though Mr Paulus Smits, the
Unisource representative on the
Telecom Italia board, has so far
not resigned from the Italian
company.

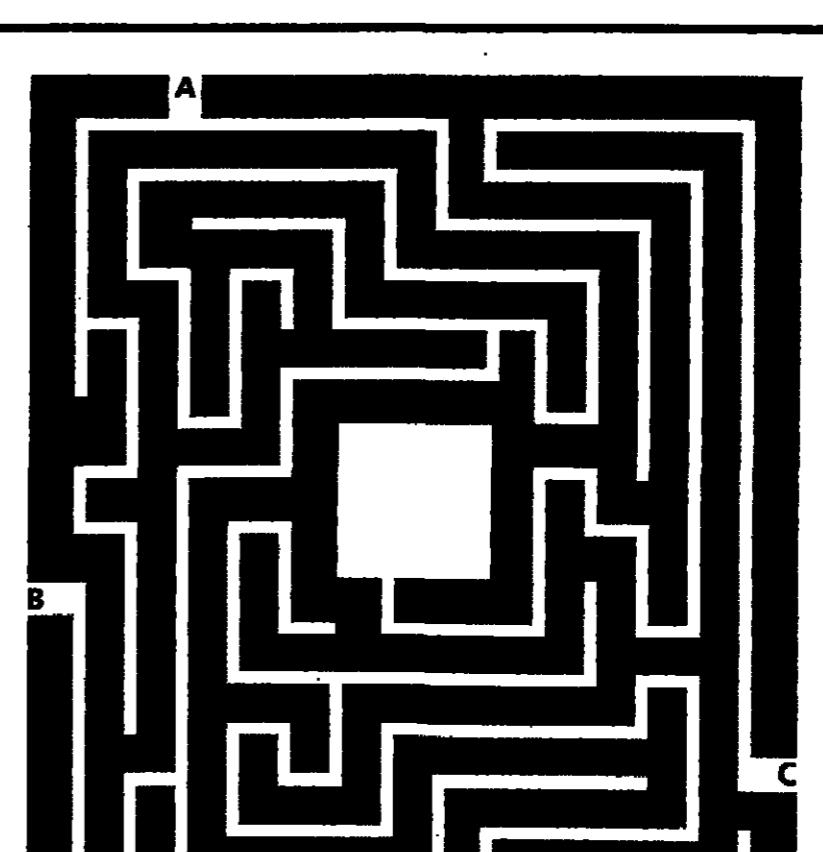
Since Telecom Italia's privati-

sation, both the Italian company
and AT&T have faced consider-

able internal management

upheaval.

It's a Cinven challenge



Which way do
you want to go?

Cinven Capital choices

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WORLD NEWS

EUROPE

EU bankers hit at IMF on bail-outs

By Wolfgang Münchau and Lionel Barber in York

European Union central bankers have attacked the bail-out practices of the International Monetary Fund and will be putting forward proposals next month that would involve commercial banks at an earlier stage.

The criticism reflects concern about the IMF's handling of the Asia financial crisis. It also signals the EU's intention to raise its profile in international financial institutions as 11 European countries prepare to adopt a single currency next January.

The US has dominated the policy agenda of the IMF, even though EU countries have a larger combined shareholding.

Hans Tietmeyer, president

of the Bundesbank, speaking after the informal meeting of EU economics and finance ministers at the weekend, said the multi-billion-dollar international rescue plans for Thailand, South Korea, Malaysia and Indonesia could encourage reckless bank lending.

The IMF should re-evaluate its policies and should question itself on how far its policy generates moral hazard. The IMF should consider whether it is better to tackle problems with large sums of bail-out money or whether it might be better to involve private sector creditors at an earlier stage," he said.

Mr Tietmeyer said he had drawn up proposals which he would present to the IMF's interim committee at its next meeting on April 16 in Washington.

He did not divulge details of the programme, but a key element is believed to include regular monitoring of private sector debt.

At the meeting, EU central bankers also discussed the possible dangers of electronic money to monetary policy under Emu. Smart cards with computer chips are becoming increasingly popular, but central bankers are worried because this is a form of money that operates outside the control of central banks.

The bankers are particularly concerned that the transition period between the launch of monetary union in January and the introduction of euro notes and coins in 2002 could encourage the use of electronic money.

Mr Tietmeyer called on the European Commission to consider regulating the markets for electronic money and electronic banking, restricting its use only to established banks.

Denmark 'should shadow Emu'

By Tim Burt in Stockholm

Denmark should adopt an economic policy designed to shadow European economic and monetary union (Emu) without committing the country to membership of the single currency, according to a government document due to be published next week.

The 300-page report, drawn up by the Ministry of Economic Affairs and the Danish central bank, recom-

mends that Denmark should tailor its policies closely to those of euro-zone countries. Publication of the report, due next Monday, could exacerbate anti-Emu sentiment among Eurosceptic members of the recently re-elected Social Democrat government.

The minority government told voters in the run-up to this month's election that Denmark would not participate in the single currency or abandon its opt-outs from

the Maastricht Treaty. But the report, Denmark Outside the Euro, says: "Our economic policy will be to behave as if we were a member with respect to economic policy, particularly with the development of inflation and financial markets."

Publication of the report follows a one-year study by the Danish government's Emu committee, comprising ministry and central bank officials working alongside representatives of business

and consumer groups.

In spite of its main conclusions, one of the report's leading contributors denied that it would compromise government with respect to economic policy, particularly with the development of inflation and financial markets.

It also reiterated Denmark should not join the single currency without holding a referendum on the issue - something not planned at

present. Nevertheless, the document confirms Denmark will become a member of ERM-2 - successor to the current exchange rate mechanism - next January. As such, the Danish krone will be pegged closely to the euro. One leading banker suggested at the weekend that the government might

adopt an ERM band of no more than 0.5 per cent above or below the euro.

Emu survey, separate section

Swiss are Europe's 'happiest workers'

By Robert Taylor,
Employment Editor

Swiss and Danish workers are the most satisfied employees in Europe, followed by the Norwegians, Dutch and Austrians. The Irish are not far behind, alongside the Finns and Portuguese.

British and Italian workers are among the least satisfied after the Hungarians. Other more disgruntled workers are the French, the Spanish, the Czechs, the Belgians and the Germans.

These are the main findings in the latest annual survey of employee satisfaction in Europe carried out by IRS International Survey Research, the independent consulting company. The sample is made up of employee opinion surveys in a wide range of business organisations across Europe.

The Swiss, more than workers in any other European country, believe they are well paid, receive generous company benefits, derive satisfaction from their work and have safe working conditions. More than 70 per cent of them believe they work in efficient companies, produce high quality work, co-operate well with one another and identify strongly with their companies.

By contrast, Italian workers have a low regard for their immediate supervisors, the state of their physical working conditions, the quality of their work, their training and development chances. Feelings of job satisfaction and job security are lower among workers in the UK than in almost any other European country, and management is rated less favourably by employees.

The survey is available free from International Survey Research Ltd, Albany House, Petty France, London SW1H 9EE.

German companies warming to euro

By Ralph Atkins in Bonn

German companies are increasingly seeing the planned European single currency as a positive development which is likely to be introduced on time, according to a survey by the country's chambers of industry and trade, the DIHT, published today.

The percentage believing that the introduction of the euro from January 1 next

year is both "probable and desirable" has risen to 54 per cent. That compared with 39 per cent a year ago and just 9 per cent in 1995.

The survey of 25,000 companies points to swelling business support for the euro, despite strong public scepticism. However, the greatest enthusiasm remains with the larger companies. Less than half of companies employing fewer than 20 say the introduction of the new

currency from next year is "desirable". Support is much stronger in western than in eastern Germany. But the DIHT reported a low state of preparation by German business for the currency. It says the proportion of companies which have begun preparations has more than doubled from 21 per cent to 43 per cent since last year, "but the time ahead of the currency union has halved since then".

Nevertheless the DIHT said 55 per cent of companies planned to adapt accounting systems to the euro from next year. Repeating his call for an orderly delay, Mr Biedenkopf, a well known Eurosceptic in the Christian Democratic Union of Chancellor Helmut Kohl, said in a letter to the party's federal leadership that the conditions had not been fulfilled for lasting financial and budget stability under the euro.

Denktash plea to UN on EU talks

By David Buchanan
and Karin Hoepf in Nicosia

Rauf Denktash, the Turkish Cypriot leader, is asking the United Nations Security Council to step into the Cyprus crisis and tell the Greek Cypriot government it cannot negotiate entry into the European Union until it first comes to a political settlement with him.

Kofi Annan, the UN secretary general, is due to meet Mr Denktash in Geneva on Friday. But he is expected to warn the Turkish Cypriot leader that there is no chance of the Security Council - where Britain and France hold veto powers - dictating terms to the EU on how and when it chooses to expand its membership.

Mr Denktash's latest move reflects his increasing desperation to block the EU's accession negotiations with Cyprus, which are due to start formally on March 31. Mr Denktash's self-proclaimed "Turkish Republic of Northern Cyprus" is not recognised by the UN or any of its members except Turkey. But he has already put his appeal to Diego Corredor, the UN secretary general's special envoy on Cyprus, who has been in Nicosia vainly trying to persuade Mr Denktash to return to inter-community talks with the Greek Cypriots.

Mr Denktash has recently warned he would return to UN-sponsored negotiations to end the 34-year-old partition of the island only "on a state-to-state basis" - meaning that his breakaway state

must first be recognised as the equal of the internationally accepted Greek Cypriot government. But, in an interview last Friday, he went further to "ask the Security Council to protect me" from the risk posed by the Greek Cypriots' bid to negotiate entry of the whole of Cyprus into the EU.

He said he would not resume the UN negotiations "until the Security Council acknowledges that the Greek Cypriots cannot speak for us" with the EU.

"People will say this is just Denktash being negative, intransigent again," said the Turkish Cypriot leader, "but I am democratically elected and acting for my people." However, one Turkish Cypriot opposition leader criticised his stance.

weekend, Glafcos Clerides, the Greek Cypriot president, dismissed the possibility of Mr Denktash's appeal succeeding. "The Security Council would not be able to intervene in EU matters - this is not within its jurisdiction." He reiterated that his government would not recognise Mr Denktash's state.

At EU insistence, the Clerides government has offered to include Turkish Cypriots as full members of its negotiating team - an invitation that Mr Denktash has turned down. Mr Clerides said he had told the EU to go ahead and brief the Turkish Cypriots on the progress of the accession negotiations, which are expected to take several years. Mr Denktash rejected this idea.

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At EU insistence, the Clerides government has offered to include Turkish Cypriots as full members of its negotiating team - an invitation that Mr Denktash has turned down. Mr Clerides said he had told the EU to go ahead and brief the Turkish Cypriots on the progress of the accession negotiations, which are expected to take several years. Mr Denktash rejected this idea.

In an interview over the

weekend, Glafcos Clerides, the Greek Cypriot president, dismissed the possibility of Mr Denktash's appeal succeeding. "The Security Council would not be able to intervene in EU matters - this is not within its jurisdiction." He reiterated that his government would not recognise Mr Denkt

INTERNATIONAL

Swiss are Europe's happiest workers

NEWS DIGEST

SCHLESWIG-HOLSTEIN

Social Democrats make gains in local elections

Germany's opposition Social Democrats last night appeared to have made significant gains in local elections in Schleswig-Holstein, north Germany. First predictions after the polls closed pointed to a increase of about three percentage points in the party's vote from the 39.5 per cent won in 1994.

The city and local contests provided the latest test of voters' opinions ahead of September's federal elections. They followed the SPD's victory in Lower Saxony state elections on March 1, which secured the party's chancellor candidate for Gerhard Schröder, the state's prime minister.

However the SPD's apparent success in Schleswig-Holstein was marred by indications that the Green party vote may have slipped from 10.3 per cent last time to about 7 per cent. The Greens and the SPD form the state government in Schleswig-Holstein and the SPD's hopes of securing a change of power in Bonn could depend on being able to form a coalition with the Greens at the federal level.

Meanwhile, Chancellor Helmut Kohl's Christian Democratic Union appeared to have increased its vote slightly in yesterday's contests. Ralph Atkins, Bonn

MIDEAST PEACE

Israel snubs US proposal

Israel's cabinet yesterday rejected a reported US proposal to revive stalled peace talks. Newspapers said a US initiative called for an Israeli troop withdrawal from 13 per cent of the occupied West Bank.

In an attempt to head off US pressure on Israel, the cabinet said such a proposal would be "unacceptable" and insisted that "only Israel will determine its security needs". Palestinians want Israel to withdraw from 30 per cent of the West Bank, and say Israel is using security as an excuse to stall on the peace process.

Israeli newspapers said yesterday that Benjamin Netanyahu, prime minister, appealed to US President Bill Clinton not to publicise the US initiative. According to Israeli officials, Dennis Ross, US Middle East peace envoy, would arrive in the region at the weekend to try to revive the talks.

Meanwhile, Kofi Annan, UN secretary general, will arrive in Gaza today to meet Yasir Arafat, president of the Palestinian Authority. Avi Machlis, Jerusalem

BASQUE SEPARATISTS

Eta members held in Seville

Spain's security forces claimed a second big success against the Basque separatist organisation Eta over the weekend with the arrest of five of its members and the capture of weapons and nearly 600kg of explosives. The swoop on an Eta safe house in Seville took place 48 hours after 13 gunmen and their accomplices had been detained in a series of raids in the Basque country.

Police linked two men and a woman held in Seville with the murder in January of a city councillor and his wife that formed part of an Eta campaign against elected officials of the ruling Popular party. All three were said to have been involved in Eta attacks in Madrid and the Basque Country for several years and had moved to Seville to spread separatist violence to the south of Spain.

Two more men arrested on Saturday were identified as French nationals resident in the French Basque country, where Eta has traditionally maintained bases. Tom Burns, Madrid

NO-CONFIDENCE MOTION

Thai government survives

The Thai government of Chuan Leekpai survived a no-confidence vote in parliament over the weekend. The country's new constitution forbids the opposition from submitting another no-confidence motion for a year, which may allow several months of relative calm in Thailand's normally turbulent political waters.

Nevertheless, the 208-177 vote exposed the government's slim majority in parliament, one that could be difficult to maintain when a number of controversial measures, such as expanding foreign ownership in Thai companies and privatisation, come up for debate in the next parliamentary session scheduled for June.

Some observers expect Mr Chuan to call a snap election as soon as new legislation covering election procedures are completed in the next few months. Ted Bardacke, Bangkok

OLYMPIC AIRWAYS

Strike threat at Greek airline

Unions at Olympic Airways, the struggling Greek state carrier, yesterday threatened to begin work stoppages from tomorrow in protest against a restructuring plan put forward by the Socialist government.

The airline's restructuring is part of a package of public sector reforms agreed with the European Union as the price of the drachma's entry last week to the Exchange Rate Mechanism. Greece is committed to modernising loss-making state enterprises over the next 18 months in its attempt to achieve membership of the single European currency by 2001.

The plan presented by Tasos Mantzas, the transport minister, calls for a three-year wage freeze, longer working hours and closures of loss-making routes. Based on proposals made last year by McKinsey, the US consultancy, it aims at bringing Olympic's operations in line with other EU carriers.

Michalis Paras, head of the airline's federation of 17 separate unions, said the proposals would mean "conditions of slavery" for Olympic's workers.

The transport minister has warned that the airline may be shut down if no agreement is reached with the unions in negotiations due to start this week. The modernisation of Olympic is seen as the test case of the Socialists' new policy, but confrontations are also likely with workers at Hellenic Railways, another heavy loss-maker, and DEH, the state electricity utility. Keri Hope, Athens

BASHKORTOSTAN

Russian republic raises \$45m

The autonomous Russian republic of Bashkortostan has raised \$45m on the international capital markets in a move that could encourage other Russian municipal borrowers back after their enforced absence due to Asia's financial crisis.

The loan, arranged by Moscow Narodny Bank and HSBC Markets, is the first foray into the international markets by Bashkortostan, a region about as large as France, 1,500km east of Moscow and with substantial oil reserves.

The republic produced 6 per cent of Russia's total oil output in 1995, according to Moscow Narodny Bank, and the loan is to be used for investment in its hydrocarbons and petrochemicals industry, which officials claimed was highly profitable.

Agreement on the two-year loan was signed in London on Friday by Rm Bakiev, prime minister, and executives of the banks. It was priced at 400 basis points over Libor, which analysts said was expensive but not surprising because the republic had no credit history.

Fitch IBCA, the international credit rating agency, rated the creditworthiness of BashCredit, Bashkortostan's state bank, last December at C/D, well below investment grade.

Alek Gasakov, Bashkortostan's deputy finance minister, said that the country might seek up to \$500m in foreign borrowings in 1998 and that it was in talks with a number of western investment banks about launching an international bond issue by the end of the year. Vincent Boland, London

Milosevic pins hopes on Kosovo cause

The embattled Serbian leader is attempting to overcome his domestic problems by rallying his countrymen to an old battle cry, reports Guy Dinmore

By reviving the battle cry of Kosovo, Slobodan Milosevic, president of what is left of Yugoslavia, hopes to rally fellow Serbs in a rear-guard action to shore up his waning powers.

The risks are great. A decade ago, Mr Milosevic, then a Communist party apparatchik, outmanoeuvred his rivals by fanning the flames of Serbian nationalism in Kosovo - at the cost of destroying former Yugoslavia. Analysts say that by returning to the scene of his former triumphs, Serbia's strongman may yet bring about his final undoing.

"Milosevic is trying to get stronger through Kosovo," says Stojan Cerovic, a political commentator. "Domestic factors played a large role in his decision to start another conflict."

The first serious setback to Mr Milosevic came a year ago when mass street protests forced him to recognise sweeping opposition victories in Serbia's local elections. Then, in his ruling Socialist party lost its parliamentary majority in Serbia and his ally was defeated by a pro-western reformist in Montenegro's presidential election.

This year saw the Serb half of Bosnia slip from his grasp with the appointment of a new moderate government.

In Kosovo, birthplace of the first Serbian kingdom in medieval times and still revered for its ancient Orthodox monasteries, Mr Milosevic has rediscovered a ready cause for uniting a country lurching further to the nationalist right.

The omens were good. Before Serbian police launched their offensive against a small group of ethnic Albanian rebels, an opinion poll showed that 41.8 per cent of Serbs believed the solution to the Kosovo problem was the removal, by force or peaceful means, of its Albanian majority. In the poll of 400 Serbs of higher than average education, more than a third agreed that "the ethnic purity of every nation should be aspired to".

Last year a declaration blessed by the Serbian Orthodox Patriarch Pavle and signed by 60 prominent intellectuals accused "the world's power mongers" of victimising the Serbian nation. They demanded that Radovan Karadzic, the Bosnian Serb wartime leader, be cleared of all charges levied by the UN war crimes tribunal.

Sonja Biserko, head of the Helsinki Committee for Human Rights in Serbia, believes that the collective reluctance to come to terms with the "ethnic cleansing" of Moslems and Croats in Bosnia has given Mr Milosevic the confidence to use force against Albanians in Kosovo. "This is a historical debacle for this nation. The mainstream of academic thought is xenophobia," she comments.

For most ordinary Serbs, whose priority is the daily struggle to survive, state television and radio are the only sources of information. The well-oiled propaganda machine ensures that the official view prevails. Radmila Milentijevic, the Serb

information minister, denies reports of summary executions and says the Albanian women and children who died were either used as "human shields" or were killed by the "terrorists" themselves.

This version of events finds ready acceptance on the streets of Belgrade. "I support Milosevic 1,000 per cent. Kosovo is our land, Serbian land. Underline that several times," said Vlasta Jelic, a 65-year-old concert violinist. "The Albanians killed their own people, just as the Moslems did in Bosnia so that the west would impose sanctions."

Grujica Spasovic was one of five editors of independent newspapers questioned by police for running the headline "dead Albanians" instead of "dead terrorists", as the victims were officially described by the interior ministry.

Ognjen Pribicovic, a sociologist, believes a vast majority of Serbs see Kosovo as their Holy Land and support Mr Milosevic.

"The Serbs do not treat the Albanians as equal, they treat them as uncivilised, very primitive, dirty... as humans of a lower profile. Of course Milosevic was the person who opened the bottle and let the devil out but these feelings are much older than Milosevic."

But Kosovo is still regarded as far away and poverty-stricken. The prevailing sense of political apathy in Serbia means that while many tacitly support Mr Milosevic, and would probably endure further



Ibrahim Rugova voting in Pristina yesterday Picture Reuters

Albanians vote in 'illegal' poll

Ethnic Albanians in Serbia's southern province of Kosovo voted in large numbers for their own parliament and president yesterday, Guy Dinmore

reports from Pristina. It was a defiant but peaceful message to the government in Belgrade following a police crackdown in which more than 80 people have been killed.

The Serbian government says Deep isolation for Yugoslavia could also backfire on Mr Milosevic in Montenegro. If the reformist party of President Milo Djukanovic does well in the republic's parliamentary elections in May it will increase its strength in the federal assembly and be able to block Mr Milosevic's plans to boost his constitutionally weak powers.

If Mr Milosevic is forced to compromise by the west and accept a political solution in Kosovo that many Serbs would oppose, then more Serbian support will go to Vojislav Seselj, the arch-nationalist who came within a whisker of winning the presidential election last year.

"The response of Milosevic to liberalism is to ride nationalism," says Mr Cerovic, analyst for the independent magazine *Vreme*. "I'm not sure he will be so successful this time."

organized and disciplined despite the unorthodox circumstances. Albanians used Yugoslav identity cards to vote although they refuse to recognise the existence of the Belgrade government. Even state schools were used as polling stations with Albanian national flags hanging over voting booths.

Ethnic Albanians make up 90 per cent of Kosovo's 2m people and held their first elections in 1992, three years after Belgrade stripped the province of its broad autonomy. Ibrahim Rugova, president of the self-declared Republic of Kosovo, is the only candidate and the high turnout will give him a strong mandate to enter negotiations over Kosovo's future status with Belgrade. Mr Rugova is demanding full independence.

Romania PM to stay, says president

By Anatol Lieven in Bucharest

President Emil Constantinescu has refused to dismiss the prime minister, Victor Ciorbea, as a way of ending Romania's political crisis.

He said that the 15-month-old Ciorbea government had important achievements to its credit, and that in any case, "people have to learn that democratic games may be complicated and inconvenient, but they are still to be preferred to an authoritarian decision by the president".

Mr Constantinescu's refusal to intervene leaves no clear way out of the dispute, which has been rocking the Romanian government since the start of the year and has damaged economic reform.

The Democrat party, junior partners in the ruling coalition, have been demanding Mr Ciorbea's replacement as the price of their continued support for the government. At present, the Democrats are threatening to vote against the budget for 1998, which is to be presented to parliament this week if the prime minister does not resign.

Mr Constantinescu said in an interview there would be two "moments of truth" for the government in the coming month: the budget with its austerity measures, and the passage by parliament of a detailed plan for privatisation and industrial restructuring, as demanded by the International Monetary Fund and World Bank.

The international financial institutions are especially concerned by the failure to close or restructure loss-making state enterprises which are incapable of paying their energy bills.

Both the budget and industrial restructuring are, however, strongly opposed by trade unionists, the Socialist opposition, and powerful industrial vested interests.

Mr Constantinescu said that despite this opposition, "we have to move to a new stage, from rhetorical declarations about reform, which has become a word practically without meaning, to real and painful decisions about restructuring and who will have to be laid off."

The president said that if either the budget or the restructuring plan was rejected by parliament, the government would probably have to resign.

What would happen then is not clear. The president said early elections this year would be most undesirable.

This raises the spectre of a long period of caretaker government.



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Nominations are now being accepted for the 1998 Awards. Two Awards

The second Award will go to a company with its headquarters in the developed world whose expansion into emerging markets has contributed significantly to corporate revenues and profitability and has benefited the countries involved.

The Awards will be presented at a special gala Awards Dinner during the IMF/World Bank annual meeting in Washington on October 5, 1998. If you would like to submit a candidate, please forward

all contact details for your nominee and yourself by May 15, 1998 to Tom Lonardo, Managing Director, International Media Partners, on tel. +1.212.610.2924; fax +1.212.610.2901; email: tlonardo@emrgmkts.com.

LAST YEAR'S WINNERS

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THE AMERICAS

Scandal manoeuvre upsets Republicans

By Mark Suzman in Washington

US Republicans yesterday strongly criticised the White House decision to invoke a little-used constitutional privilege to prevent top aides from being questioned by prosecutors over the sex scandal allegations dogging President Bill Clinton.

Speaking on television, Trent Lott, Senate majority leader, warned that Mr Clinton's decision to claim executive privilege for Bruce Lindsey and Sidney Blumenthal, two presidential advisers, raised comparisons with Watergate and gave the impression the president was trying to hide something.

After weeks of vacillating in the hope of avoiding a constitutional showdown, the White House on Friday formally invoked the privilege to protect the two men from testifying about conversations they may have had with Mr Clinton

about the allegations.

The president's right to use the privilege, which is normally cited for issues of national security, is being challenged by Kenneth Starr, the independent counsel leading the investigation. A court ruling could come as early as this week, but an appeal could delay the investigation for months.

Mr Lott's comments are a sign of growing frustration in the Republican party at the success of Mr Clinton's stonewalling tactics over allegations that he had an affair with Monica Lewinsky, a former White House aide, and made unwanted sexual advances to Kathleen Willey, a volunteer worker.

Many had hoped that the new revelations about Ms Willey would turn the tide of public opinion against the president. However, while recent polls indicate that public disapproval of Mr Clinton as a person has risen

over the past week, overall approval of his presidency remains close to its highest levels.

Mr Clinton's political resilience is posing problems for Republican leadership as it tries to decide how to handle Mr Starr's final report when it is eventually handed over to Congress. Many are reluctant to open impeachment hearings against a popular president for fear it will damage them in November's elections.

Newt Gingrich, House speaker, and Henry Hyde, chairman of the House judiciary committee, which normally investigates such matters, have decided to send a small group of House members to scrutinise Mr Starr's evidence at an appropriate time before deciding how to proceed with any formal congressional investigation.

From Washington: Losers in primary colours, Page 10

Low-key Cuba welcome for lighter US sanctions

By Pascal Fletcher in Havana

A US move easing some sanctions against Cuba but maintaining the long US economic embargo against the communist-ruled island has been greeted cautiously by the Cuban government as "a drop of water in the desert".

Cuban state media reported without comment US President Bill Clinton's announcement on Friday that charter flights from the US to Havana would be resumed and Cuban exiles in the US would be allowed to resume sending cash to family members on the island.

But officials were quick to point out that the move, as presented by Madeleine Albright, secretary of state, did not remove or substantially alter the 36-year-old US embargo against Cuba nor the 1996 Helms-Burton law

which further tightened the economic squeeze.

Of Mrs Albright's assertion that the move fell within the US strategy of seeking a "peaceful transition to democracy" in Cuba, the Prensa Latina news agency said: "The White House continues blindly in its attempt to impose on Cuba changes which Cubans alone should decide."

Speaking in Geneva before Friday's announcement, Cuba's foreign minister, Roberto Robaina, said the US measures, details of which had already been leaked, looked like a "cosmetic operation" that did not "go to the heart of the problem". He said Cuba wanted to see a complete lifting of the US embargo.

Nevertheless, it appeared that Cuban leaders, though considering the US move

insufficient, did not want to dismiss it completely lest this discourage efforts in Congress to push through legislation which would ease the embargo by allowing humanitarian sales of food and medicine to Cuba.

In an early reaction as news of the latest US move was breaking, President Fidel Castro had commented that it seemed "positive".

As part of the measures, Washington said it would "streamline and expedite" the granting of licences for the sale of medicines to Cuba, which is already permitted under the embargo.

Mrs Albright said the administration would also seek bipartisan legislation to "meet humanitarian food needs on the island" as part of a strategy to "help the Cuban people without helping the government".

Nevertheless, it appeared that Cuban leaders, though considering the US move

JAPANESE ECONOMY ALTHOUGH FURTHER WEAKENING OF THE CURRENCY WOULD HAVE DIRE CONSEQUENCES, IT COULD BE DIFFICULT TO HALT THE SLIDE

Hard times take shine off once mighty yen

By Paul Abrahams in Tokyo

For years the yen was a one-way bet. Japan's economic strength, low inflation and strong productivity growth ensured the currency consistently appreciated. When in April 1985 it hit Y19.75 to the US dollar, there were commentators who believed it could reach Y50.

Those days are long gone. The debate is now about how weak the yen can become. Last week the currency broke through Y130 to the dollar for the first time since January, and some traders predict it could reach Y150 this year. The implications are considerable.

The dangers of heightened trade friction with the US would be real. Only two years ago, explains Jeffrey Young, head of economic analysis at Salomon in

Tokyo, US authorities became apoplectic if Japan's current account surplus as a proportion of gross domestic product exceeded 2 per cent. If the yen were to reach Y140, Japan's current account surplus, already at 2.75 per cent of GDP, could reach 3.25 per cent, he warns.

The impact of the yen's depreciation on other Asian economies could also be disastrous.

It would make Japanese products even cheaper in export markets where they compete with goods from other Asian countries. It would also make Asian goods more expensive in Japan. The country accounts for about 65 per cent of Asia's combined GDP and for most Asian nations is the most important export market. Asian countries are

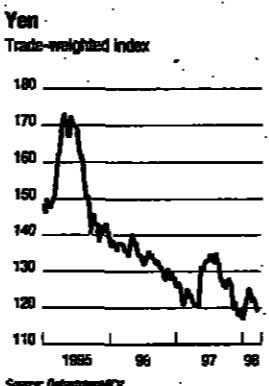
already suffering from weak Japanese demand.

Although further weakening of the yen could have dire consequences, it could prove difficult for authorities in the US or Japan to halt the slide. There are strong macroeconomic forces driving the currency's decline.

Most important are the relative strengths of the US and Japanese economies. In recent weeks it has become apparent that Japan is slipping into a deep recession: GDP growth in the financial year ending this month is likely to be negative, the first year the economy will have contracted since 1974.

The Industrial Bank of Japan, admittedly one of the most pessimistic forecasters, predicts the economy this calendar year will also shrink. In contrast, the US

continues its impressive



steady growth with low inflation.

Economic pressures on the yen are reinforced by capital flows. Mr Young points out that interest rate differentials between Japan and the US are huge. Overnight rates in Japan are just 0.8 per

cent against 5.5 per cent in the US. Even taking into account probable deflation in Japan, real interest rates are far higher in the US.

"Why buy yen, when you can buy dollars?" asks Ravi Bulchandani, global currency economist at Morgan Stanley.

Already, Japanese pension funds are big buyers of dollars and dollar-denominated investments. The liberalisation of foreign exchange rules next month as part of the Big Bang financial revolution will make it even easier for Japanese investors to buy assets overseas.

Eisuke Sakakibara, vice-minister at the Ministry of Finance - dubbed "Mr Yen" for his ability to move foreign exchange markets - has pledged to take decisive action to prop up the yen. But his ability to do so

seems limited given the macroeconomic context.

Without an increase in interest rates - an impossible policy change given the economy's weakness - even intervention in the foreign markets by the central banks of the Group of Seven leading industrial nations would be unlikely to have much long-term effect on the yen's value, argues Kenneth Landon, senior currency strategist at Deutsche Morgan Grenfell.

In any case, currency analysts question the political commitment to a strong yen.

Mr Bulchandani says: "Japan would be incapable of dealing with Y10 to the dollar. The bond yield would fall to 1 per cent, and the economy would be condemned to low growth for many years."

As for Asia, he believes

the region could cope with a weaker yen. He points out that the Bank of England's trade-weighted index for the yen does not take into account Asian countries, which account for 35 per cent of Japanese exports.

When their currencies are included, the yen has actually appreciated 15 per cent since January 1997.

He argues the damage caused by Asian countries losing export orders in the short-term would be far less than that caused by a prolonged Japanese recession.

Currency analysts expect downward pressure on the yen to gain force next week after the government's latest economic package is announced. They are betting that the currency will fall heavily. The bet on depreciation is not one way, but the odds are in its favour.

"If the Europeans can take some measures themselves, even if they're mostly symbolic, it will make it easier for the US to back down," said an analyst.

Some US officials are hoping the deal will collapse anyway, particularly as Petronas is reported to be struggling to meet its obligations because of the Asian financial crisis. However, Total insists the project will go ahead.

Washington rethinks Iran sanctions

By Mark Suzman

The US is being forced to rethink its plans to impose sanctions on foreign oil companies doing business in Iran as it seeks to shore up support in the Middle East and avoid alienating European allies and Russia, all of whom strongly oppose the move.

Analysts say that recent conciliatory overtures towards the US by Moham-

mad Khatami, Iran's president, and the risk of military action in the Gulf if Iraq violates the new UN agreement on arms inspections are also contributing to a more flexible US approach.

The change in attitude comes as the US continues to delay a formal announcement about whether the \$20 billion investment in Iranian gas announced last year by Total of France, Gazprom of Russia and Petronas of

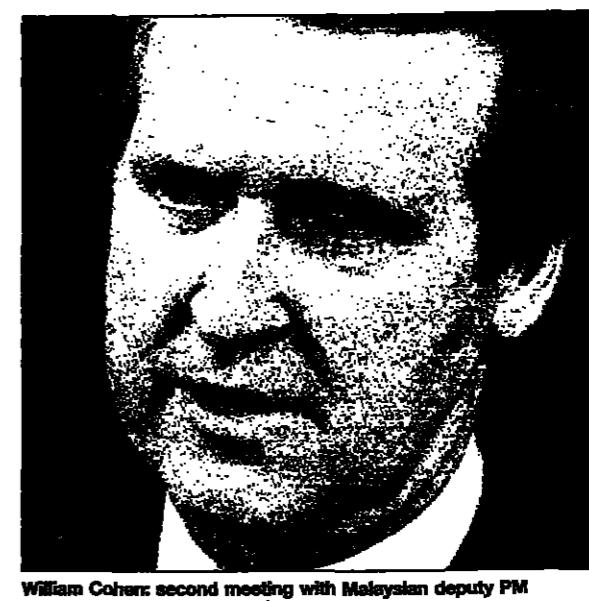
Malaysia violates US law.

Under the terms of the 1996 Iran-Libya Sanctions Act, any foreign company which invests more than \$30m in Iran's energy sector is liable to US sanctions.

Once the US government concludes that a company has violated the agreement it is required to decide within 90 days which, if any, punitive measures to invoke.

The condition has become a headache for the US

administration, which is under pressure from the European Union not to impose sanctions on the Total deal. It has been investigating the issue for months and is now expected to wait at least until May before making a final decision. By doing so, the US hopes the UK, which holds the rotating presidency of the EU, will be able to persuade Brussels to toughen its own position on Iran.



William Cohen: second meeting with Malaysian deputy PM

Pentagon strategists cultivate defence ties with Indonesia

The Asian financial crisis has spurred efforts to head off a possible slide back towards regional strife, writes Bruce Clark

When Indonesia descended into economic tailspin, two agencies of the US government took the lead in co-ordinating an effective response to the crisis.

One was the Treasury, working both directly and through the International Monetary Fund and World Bank.

The other, much less conspicuous but equally important, was the Pentagon. While US economic policymakers view Asia's financial travails as a serious threat to trade balances and growth, the defence community saw even darker consequences if Indonesia crumbled.

At worst, say US experts who are familiar with Pentagon thinking, the economic crisis could have pressed a slide back towards the strife that raged between the few institutions holding Indonesia together, say diplomats in the region.

A landmark in US-Indonesia military co-operation occurred earlier this month when it was announced that a small but symbolically important joint exercise was in progress in west Java.

This prospect has reduced the interest of US strategists in consolidating bilateral defence links with Indonesia and most of its neighbours. This process was gathering pace well before the economic crisis started, said James Clad, a professor at Georgetown University, at a conference last week of the Overseas Development Council.

The US, working in close co-operation with Australia,

has been steadily cultivating ties with the Indonesian military. Wherever the US has felt constrained by domestic lobbies concerned over human rights, Australia has "stepped in to fill the breach", according to Marvin Ott, a professor at the Pentagon-affiliated National Defense University.

At a time when the military stands out more clearly than ever as the few institutions holding Indonesia together, US officials are watching senior figures in the armed forces to assess their viability as successors to President Suharto, say

The attachment of the Pentagon to links with the Indonesian military was highlighted last week when the US administration admitted that it was using a technicality to circumvent congressional attempts at barring military training assistance.

Lane Evans, a Democratic congressman from Illinois, secured from the Pentagon a acknowledgement that it has been training the Indonesian military since 1982 - including the Kopassus special forces which have been

to Malaysia. Anwar Ibrahim, Malaysia's deputy premier, is due in Washington soon for his second meeting this year with William Cohen, the US defence secretary.

Singapore announced earlier this year that it would allow the US Pacific Fleet to use a deep-water naval base now under construction. In January the US and the Philippines initialled a "visiting forces agreement", enabling the resumption of joint military exercises and US warship visits.

Indonesia denied earlier this month it had been asked to provide a military base for US forces. But speculation in Jakarta has persisted - and, in any case, the Pentagon is more interested now in having periodic access to overseas facilities than permanent installations.

The last thing the Pentagon wants is Asian bases with local problems - it had enough of that type of thing in the Philippines," says Prof Clad, one of several US experts on the region who argue that the US defence system built up over 30 years around the Association of South East Asian Nations (Asean) is under pressure.

The attachment of the US to the Asean is under unprecedented strain - because of organisational over-stretch, the age of its leaders and economic factors.

The broader effort to enhance bilateral ties between the Pentagon and south-east Asian states has been in progress at least since last summer, when the US aircraft carrier Independence paid a landmark visit

made, but not pressed, a broad assertion of territorial rights.

US strategists see Jakarta as the key factor. As long as the regional security system, of which Indonesia is the lynchpin, remains intact, then "it will be very difficult for the Chinese to meddle if they are so inclined", says Paul Wolfowitz, an influential scholar and ex-ambassador to Jakarta.

If the south-east Asian system starts to come apart "then it will be very difficult for China to keep out", Mr Wolfowitz adds. But he does not believe that concern over Indonesia's strategic importance should imply pulling punches over its shortcomings in economic policy. "If economic mistakes are jeopardising the country's long-term health, we should be telling them so."

Banned dissident accuses Beijing

By John Riddell in Hong Kong

A prominent US-based Chinese dissident, who was refused entry to Hong Kong at the weekend, claimed the territory's immigration authorities had acted on instructions from Beijing.

Wang Bingzhang's claim was rejected by Hong Kong's security bureau, which said the decision was taken on the territory's own authority, that Beijing had not been consulted and that Mr Wang was refused entry because of a suspected forged travel document.

However, the case could lead to further questions about Hong Kong's autonomy under Chinese sovereignty. A number of recent incidents, including a decision not to prosecute a Chinese organisation in the territory, have raised concerns about autonomy.

Related concerns about the threats to the rule of law will be under scrutiny today when the secretary of justice appears before legislators to explain the territory's prosecution policy. That follows a case last week in which the Justice Department decided not to prosecute a prominent local publisher linked to a fraud case by the territory's independent Commission Against Corruption.

The department said that there was no special treatment in the case and prosecution policy remained unchanged since before last July's return to Chinese sovereignty.

In the case of Mr Wang, Hong Kong officials said there was no threat to the "one country, two systems" formula which underpins autonomy and which promises autonomy to Hong Kong. Hong Kong's post-colonial constitution says the territory may still apply immigration controls on people from foreign states.

Mr Wang responded that he had not had any problems when he first entered Hong Kong last Monday using the same travel documents.

Garuda tries to rearrange lease payments as air ticket sales fall

By Sander Thomae in Jakarta and Michael Scapin in London

Garuda and several other Indonesian airlines, hit by a fall in ticket sales and a collapse of the rupiah, are trying to renegotiate leasing payments and are handing back some aircraft, according to airline executives.

Sabur Taufik, project co-ordinator at Garuda, said the state-owned airline would start talks next week with at least five leasing companies on rescheduling leasing payments, but he would not name them or the number of aircraft involved.

A banker involved in Asian aircraft finance said Garuda had missed several lease payments, although it had since made up some of them. He said he expected a round of tough bargaining with Indonesian carriers, with the airlines expected to claim they could finance only a fraction of their lease payments.

Oil pact gives industry breathing space

By Robert Corrigan in London

As oil prices fell to nine-year lows over the past few weeks, the level of vitriol in the war of words between Saudi Arabia and Venezuela rose proportionately.

In Riyadh, officials made barely veiled and increasingly bitter references to Venezuela's chronic over-production, which is the highest within the Organisation of Petroleum Exporting Countries. Caracas counter-attacked by accusing Riyadh of resisting a more equitable share-out of the world's oil market.

With industry pundits predicting single-digit oil prices if the two countries continued their stand-off, both sides vowed to be "the last to blink".

But such bravado could not disguise the financial pain that low prices were inflicting on them, as well as on the other producers, which watched the confrontation with growing concern.

"They all need a hospital, not a battlefield," noted Robert Mabro, director of the Oxford Centre for Energy Studies.

Yesterday's agreement between Saudi Arabia, Venezuela and Mexico marks a ceasefire in the struggle rather than a full-scale peace agreement.

But analysts say the decision by Saudi Arabia, the world's biggest oil producer and exporter, to match any combined cut by Venezuela and Mexico should put at least a temporary floor under oil prices. It should also act as a foundation and incentive for further cuts by both Opec and non-Opec countries.

That in turn should offer a breathing space to battered oil producers, which have faced such steep revenue falls as to cause analysts to raise questions about the political stability of some such as Iran and Nigeria.

The political significance of yesterday's deal is that "neither side blinked first", says Mr Mabro. The presence of Mexico in the deal is also significant. It is said to have played a critical role in bringing the two countries together and in helping them to overcome mutual suspicions.

Mexico should also make the deal more credible in the eyes of world oil markets. The three countries each have a similar share of the US market, the world's biggest, and, with the turmoil in Asia, the only one of any significance still offering growth opportunities. The deal means none of the three should secure a big advantage over the others while the nine-month agreement is in force.

The presence of Mexico and other big non-Opec producers in a global cut should also help overcome market scepticism about Opec's adherence to such a scheme.

In public, officials talk about a global reduction of as much as 2m barrels a day. A more realistic figure is probably around 1.2m b/d. That may not lead to the early erosion of the global surplus of oil supplies.

But it could easily be enough to swing short-term market sentiment and underpin prices while producers wait for the answers to the four big questions that hang over oil markets.

These are: What will be the long-term effect on demand of Asia's economic turmoil? How much more Iraqi oil will enter the market as a result of the expanded United Nations oil-for-food programme? What is the actual level of stocks in storage? And how long a shadow will they cast over oil prices?

Backers of the global cut want to attract as many participants as possible to ensure that no one country has to carry a disproportionate share of the reduction. That should also ensure that the deal does not collapse if countries fail to honour their commitments, something which could easily happen if short-term prices rise sharply.

But the relief with which oil-producing countries and companies will greet yesterday's deal is likely to be tempered by the reality that it may be only the first of several reductions that may need to be taken this year to stabilise oil markets over the longer term.

Africa's new leaders start to lose gloss

As Clinton flies into Entebbe, notes of scepticism are creeping into glowing assessments of the latest generation of rulers. Michela Wrong and Michael Holman report

Yoweri Museveni once described himself as a fat, balding man with a silly hat. But such self-deprecation, rare among African leaders, does little to obscure the fact that when President Bill Clinton flies into Entebbe tomorrow he will be greeted by the most influential sub-Saharan head of state after Nelson Mandela.

And as Mr Clinton "reaches out to his peers" the US will signal its approval of both the Ugandan president and the "new breed" of African leader he represents in the eyes of western administrations searching for signs of hope on a continent tainted by despair.

Ever since the 1997 toppling of Zaire's Mobutu Sese Seko, by rebels backed by Rwanda and Uganda, the tendency has been to view African politics in terms of a key "Band of Five": Mr Museveni, Ethiopia's Meles Zenawi, Eritrea's Isaias Afewerki, Rwanda's Paul Kagame and, to a lesser extent, Democratic Congo's Laurent Kabila.

This "new breed" of men shared their relative youth, the means used to seize

power, their intellectual arrogance and their contempt for Africa's colonial heritage. It was felt they were setting a fresh agenda that left an older generation of autocrats lagging behind.

Trumpeting the battle against corruption, they had ditched Marxism in favour of structural adjustment while bluntly telling Bretton Woods lending institutions

they themselves must dictate the pace of development. Their self-confidence convinced many these were governments the west could finally "do business with".

In this group, most of whose members will be attending a mini-summit staged in Mr Clinton's honour, Mr Museveni holds pride of place. No-one has shown more ideological adaptability or more skill at wooing donors, and no-one has proved more far-reaching in his influence.

The forces that overran Rwanda in 1994 were led by men who had held top positions in his army. Three years later, Mr Kabila not only ousted Mobutu with help from Ugandan troops. He also regularly sought advice from Mr Museveni.

The string-pulling continues. Regional analysts are now braced for a big assault on Sudan's Islamic government by rebels in which Mr Museveni and his Eritrean and Ethiopian allies are expected to play their usual covert roles, blessed by a Washington anxious to see the fundamentalist threat eliminated.

But amid all the bombing that can be expected in Kampala, the first sounds of scepticism are being heard.

Increasingly, human rights activists and analysts question whether the "new breed" are as mould-breaking as supporters profess, or whether, in describing a country such as Uganda as "a beacon of hope", as Madeleine Albright, secretary of state, did recently, the US is being dangerously naive.

"What's striking is the generational difference in Washington between those old enough to remember the initial enthusiasm towards the first post-independence leaders and a young group who never experienced that," says Alison Desforges, of Human Rights Watch.

"The older folks are saying 'Let's not get carried away, we've seen it all before', while the younger ones are so pleased to see some sort of initiative-taking."

One reason for the wariness is the deteriorating human rights records. While attention has focused on the massacres of Hutu refugees in east Zaire by Mr Kabila's forces, most of those killings were probably carried out by Rwandan soldiers, operating

across the border.

As for Mr Kabila, his treatment of the opposition is becoming more reminiscent of his predecessor's by the day. In Ethiopia, the government's repression of secession movements has involved the detention of thousands. And while there are signs of a shift in Uganda, until recently Mr Museveni was committed to his "no-party" system.

At the same time, the new

leaders' defiant protestations that Africa must "own" its own recovery programme look hollow, given the massive amounts of assistance their countries – except Eritrea – continue to need.

But the biggest danger of over-enthusiastic western support, many analysts believe, lies in the pan-Africanism embraced by the new breed.

That belief underpins Mr Museveni's decentralisation campaign and Mr Meles's federal constitution. It also explains the readiness with

which the new breed have redrawn frontiers, sent forces into adjacent countries and helped topple neighbouring leaders.

Recent history – in particular, the peace dividend that has failed to materialise in the Great Lakes region following Mobutu's overthrow – has shown the risks posed by such brash foreign adventures. The consequences of a similar upheaval in Sudan can only be imagined.

There will be one way to tell whether the new leaders are the old, power-hungry breed in a new coating: "The test will be to see whether in 10 years' time, they're still

on the scene," says a diplomat. "If they haven't bowed out, we'll know it's the same old story."

So far the signs of early departure are few. In Rwanda, the Rwanda Patriotic Front is busy extending roots into the judiciary and business. In Ethiopia and Eritrea, the ruling parties are so dominant, opposition is irrelevant. And Mr Museveni, who once said a decade in power was enough for any leader, has now been at the wheel for 12 years and shows no signs of leaving.

Editorial comment and Observer, Page 15

Contrast in global telecoms access

By Frances Williams in Geneva

Vast differences in access to basic telecommunications services persist but universal access can be achieved with new technologies and suitable policies, the International Telecommunication Union says in a report published today.

The report, which coincides with the opening of an ITU conference on telecoms development in Valletta, Malta, notes that two-thirds of the world's 1.5m households have no telephone. Over 60 per cent of main telephone lines are found in just 23 developed countries accounting for less than 15 per cent of the world's population.

Teledensity – the number of main lines per 100 inhabitants – ranges from less than 0.1 in Cambodia to 99 in Monaco, the report says. Nearly 800m people live in the 43 countries with teledensities below 1, the minimum necessary to give most people some sort of access to a telephone.

Once a teledensity of 1 is achieved, it has historically taken 50 years on average to reach a teledensity of 50, reflecting high telecoms development, though some countries have managed it in 20 years.

As density increases, the pace of change accelerates, which has had the effect of increasing inequalities between countries, the ITU says. Thus 84 per cent of mobile telephone subscribers, 91 per cent of fax machines and 97 per cent of internet host computers are in developed nations.

So far cellular telephony has been too expensive to have had much impact in enhancing access to telephones in developing countries where land lines are expensive and unprofitable to lay. However, the ITU believes the development of relatively cheap fixed cellular services offering basic facilities has the potential to cut significantly the costs (and user charges) of providing telephone networks.

The report defines "modest goals" for developing countries by 2010 of 10 telephone lines per 100 inhabitants, equivalent to at least half of all households. For the poorest countries, the ITU proposes a teledensity of 5 with a fifth of households covered.

Though the traditional practice of cross-subsidising the provision of telephones to poorer users is threatened by telecoms liberalisation, the report cites successful alternatives, including the setting of network targets for private operators in Argentina, contracting out network development in Thailand, the introduction of competition in the Philippines and private telecoms in Senegal.

*World Telecommunication Development Report, available from ITU sales service, CH-1211 Geneva 20, fax +41 22 730 5194 or website <http://www.itu.int/indicators>. SFY100.

INTERNATIONAL



Bonding in Uganda: Museveni (right) meets Kabila at Entebbe airport Picture AP

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Merrill Lynch on preparing for change.



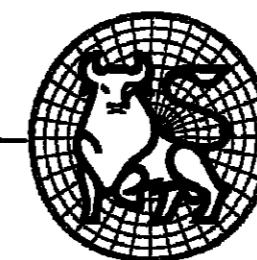
When the European single currency comes into effect, one thing is certain: a great deal will change.

Without the traditional tools of interest rate control and exchange rate adjustment, governments will have to change the way they respond to fluctuations in their economies.

As a result, we anticipate new thinking on taxation, more deregulation in labour markets and greater wage flexibility. Throughout Europe, tight restrictions on government deficits could also lead to shrinking public sectors and accelerating privatisation programmes.

For companies, the advent of a single currency should finally turn the much-vaunted single market into an everyday trading reality.

Both cross-border investment and trade will become less risky.



Without the traditional currency risks, there will be a much greater willingness to invest outside domestic equity markets. The burgeoning share-owning culture in Europe seems likely to gather pace as individuals look beyond bonds and conventional bank deposits for their accustomed investment returns.

Throughout Europe, pension fund managers and private investors are already starting to change their asset allocation strategies and consider new benchmarks accordingly.

What won't change.

Amidst all these fundamental changes, one thing won't: our commitment to help you make the most of them.

Reliable analysis will be critical in the run-up to EMU - and we have the largest research team in the world. In Europe alone, we have 130 analysts monitoring developments on the ground in nineteen different countries. With leading shares in the world's major equity markets, we also have unrivalled experience of managing dynamic economic conditions on a global basis.

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We have already made a significant investment in the new Europe. From developing practical tools like portfolio rebalancing software for Euro-denominated securities to our recent merger with Mercury Asset Management, one of Europe's leading investment managers, our preparations are well advanced.

The single currency: time to be single-minded.

Much can - and will - change on the road to EMU. For all our intimate local understanding and international perspective, we do not have a crystal ball.

But this much we can see: the paramount need to be prepared.

Now is the time to assess your new competitors. Consolidate your market position. Review your portfolio's asset allocation. Make plans to restructure your treasury operation. And explore new opportunities to raise finance in the new liquid Euro corporate bond market.

We are already advising our clients on all these issues.

For them and many others, a year of single-minded commitment to dealing with the implications of the single currency now could make all the difference in 1999 and beyond.

The difference is Merrill Lynch.

It will be easier to compare prices right across Europe. But, as the playing field widens and traditional barriers fall, competition will inevitably intensify.

In our view, as companies come to terms with this new environment, the recent trend towards mergers and acquisitions will continue apace. Treasury functions will change. Traditional banking relationships will be transformed. A deeper, more liquid corporate bond market will develop. We anticipate that whole new financial instruments will emerge.

All change for stock exchanges.

As soon as the new currency is launched, most of Europe's stock exchanges are expected to quote shares in Euros.

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BUSINESS EDUCATION PUBLISHING

The textbook that took off pre-launch

Victoria Griffith on Merton and Bodie's 'definitive' new volume

"Have you seen the new Finance textbook?" The query making the rounds of business schools these days is uttered with such reverence that the question might as well be: "Have you seen the light?"

Robert Merton, who shared last year's Nobel prize for economics, and Zvi Bodie, a professor at Boston University's business school, have penned what is being hailed as the definitive book in the field of finance. "This textbook will change the way finance is taught at business schools around the world," says James Angel, professor at Georgetown University's school of business. The eminent economist Paul Samuelson, who taught both authors when they were students at the Massachusetts Institute of Technology and wrote the foreword to the book, calls it an "innovative work that sets a new pattern of excellence".

The enthusiastic reception is remarkable because the text, *Finance*, has technically not even been published yet. As is common practice in the academic field, the textbook's publisher, Prentice Hall, has circulated some "preliminary editions" to obtain feedback for the final version, not out for another year.

ACCREDITATION EUROPEAN UNIFICATION

Europe counters

After years of prevarication and dither, Europe's business schools will today see the first fruits of their plans to develop a Europe-wide accreditation system, which will give the quality stamp to Europe's top schools.

The six schools involved - Insead, HEC and ESCP in France, London Business School in the UK, SDA Bocconi in Italy and Esade in Spain - were chosen from 19 which volunteered to pioneer the scheme.

BUSINESS EDUCATION

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"THERE'S A SECTION ON WHY
WE'RE NOT RICH."

to the everyday. To illuminate the clearing and settling of payments, for instance, *Finance* tells its readers to imagine they are taking a trip around the world. Taking along suitcases of fur and jewellery would be inconvenient, the text points out, illustrating an important function of the

**This will change
the way finance
is taught around
the world'**

financial system: to keep people from wasting time.

Similarly, the "law of one price", which says that similar goods sell for similar prices, is applicable to arbitrage and currency trading. But it's also applicable, Prof Bodie points out, to the way real estate agents estimate the value of a house.

"They look at what similar

houses in the neighbourhood are selling for," he explains. The authors believe using examples such as household budgeting and accounting at the corner shop not only make finance easier to comprehend, but also allow trends to be anticipated more easily. "To understand why banks are on the rise, you need to look at personal finance," says Prof Bodie. "What happens within millions of individual homes heavily influences financial markets."

For example, many economists believe the baby boom generation's desire to save for retirement has caused huge flows into mutual funds and strengthened the bull market in the US.

Finance as a tool, is used to accomplish three things: transfer resources, conduct transactions, and manage risk. Supporters of the new

text especially like the way it deals with risk management. "There are basically three things you can do to contain risk, as this book explains - diversify it, insure it and hedge it," says Prof Angel. "Other texts might have a chapter on options that has no relationship to the rest of book. In *Finance*, by the time you get to options, you readily understand that they can be used to insure or hedge your risk."

Because *Finance* is a textbook, full of mathematical exercises and formulas, it will probably hold little appeal for the general public. Yet Prentice Hall and the authors see potential for a personal finance version aimed at a wider audience. Referring to the Englishman whose best sellers turned black holes and comets into dinner party conversation, Prof Bodie says: "I'd like to be the Stephen Hawking of the finance world".

Richard Donkin on the US pioneers who inspired the Japanese boom

Asian economic crisis hits training

The south-east Asian currency crisis is affecting management training in all sorts of areas. For example, the Junior EU-Asian Managers programme (Jem), run by the European Union, has suffered a dramatic drop in applicants over the past year.

Jem, now organising its final programme, was set up as an exchange between managers in south-east Asia and Europe. Participants spend six weeks studying in Europe or Asia and then a further six and a half months on a placement with a local company.

When complete, the scheme

will run for three years. But it has fallen well short of attracting the intended 300 young European managers

wanting to study in south-east Asia and 700 south-east Asian managers wanting to travel to Europe. Only about 150 have shown an interest.

More than 60 per cent of the

cost of the scheme is paid for by the EU and the rest by the participating companies.

Jem: www.jemasean.org/

● Not to be put off by the situation in south-east Asia,

LBS: www.lbs.ac.uk

Information for News from Campus should be sent to Bella Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 6573 Fax 44 171 873 3950



NEWS FROM CAMPUS

For high fliers in Scotland

The first Advanced Directors' programme in Scotland will be launched this week, run by the Edinburgh-based organisation Advanced Management Programme in Scotland, which was set up by Scottish companies and public bodies.

The two-day programme is directed at executive and non-executive board members and for employees who are being groomed for a place on the board.

AMP in Scotland: UK, 131 225 6990

Judge looks for faculty

The Judge Institute at Cambridge university has started a recruitment drive for faculty in a response to the rapid growth in its MBA and research programmes.

The school is looking for three professors - in healthcare management, enterprise studies and marketing and strategy - and a new MBA course director, as well as a clutch of lecturers.

Judge Institute: UK, (0)1223 339700

POTTED THEORIES QUALITY SYSTEMS

The consumer rules

Richard Donkin on the US pioneers who inspired the Japanese boom

It may be simplistic to think of two underlying strands of management running through corporations in the 20th century but there do seem to be discernible camps - those influenced by humanistic ideas and those wedded to process.

The quality movement, arguably the most influential post-war management idea, appears to have fared in both camps. While the quality systems pioneered by W. Edwards Deming and Joseph Juran are process driven, they also rely on the ability of employees to strive towards perfection.

Both Deming and Juran worked during the 1920s at what must have been a melting pot of management

innovation - Western Electric's Hawthorne Plant in Chicago where Elton Mayo carried out his experiments on working conditions.

Deming taught the methods of Walter Shewhart, a mathematician who devised a statistical control of processes, to US engineers in the mid and war two.

His work was largely unrecognised in his own country but in 1950 he was invited on a lecture tour talking to Japanese engineers. It had a profound effect on Japanese manufacturing and helped transform its reputation.

The quality movement, arguably the most influential post-war management idea, appears to have fared in both camps. While the quality systems pioneered by W. Edwards Deming and Joseph Juran are process driven, they also rely on the ability of employees to strive towards perfection.

Both Deming and Juran worked during the 1920s at what must have been a melting pot of management

innovation, coercion of workers, management by objectives, quotas, product inspection and working to lowest tender contracts.

Deming and Juran differed in approach but were united in their basic beliefs. It was not until the resurgence of Japanese industry began to hurt the US in the 1970s that the west began to take notice. Quality had always been attainable but had often been sacrificed in mass production. A new generation of Japanese and US experts have shown that quality can be built into every stage of business, from design to customer service.

Quote: "The consumer is the most important part of the production line."

W. E. Deming (1900-93).

Worth reading: *Out of the Crisis*, W. E. Deming, Cambridge University Press, 1986.

BUSINESS EDUCATION

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Losers in primary colours

The first US presidential contest of the new millennium is only 1,000 days away and the contenders are inoculated by failure

Among many other things, the launch this weekend of the film version of *Primary Colors*, the *roman à clef* about a certain 1992 election campaign, was a reminder that the first US presidential contest of the new millennium is only 1,000 days away.

With Bill Clinton's legacy still highly uncertain, the principal contenders for the Democratic and Republican party nominations are already shuttling excitedly between Washington, Iowa and New Hampshire. The latter two locations being the familiar sites of the early primary contests in 2000.

It is clear that the line up this time round will be made up almost exclusively of previously unsuccessful candidates. In fact, it is so thick with the ranks of the defeated that it looks like one of those races held in certain Olympic sports in which the fastest losers face off against each other.

It is, in short, the *repechage* of presidential races.

Consider the principal candidates. Vice-president Al Gore, well out in front for the Democratic nomination, lost badly his only previous outing for the nomination in 1988 - beaten by Michael Dukakis, architect of a gloriously unsuccessful campaign against George Bush in the election later that year.

Richard Gephardt, the Democrats' leader in the House of Representatives, and Mr Gore's closest challenger, was also beaten by Mr Dukakis, even more handsomely, in the same year.

An undisputed bunch of losers and near-losers. Does it mean anything?

Another Democrat who may put in an appearance is Jesse Jackson, who, in two previous attempts, has demonstrated to destruction that he holds a permanent lock on the minority vote - and not much else.

On the Republican side, things are little better. The main contenders include Jack Kemp, who lost the nomination race in 1988 to George Bush; Dan Quayle, who has never contested the nomination himself, but who went down to heavy defeat as George Bush's vice-president in the 1992 general election; and Lamar Alexander, who was beaten in 1996 after a bewilderingly bad campaign to which his only memorable contribution was a ubiquitous plaid shirt, designed to portray him as the party's Everyman.

Even those Republicans whose names are mooted as strong possible challengers - George Bush Jr, the governor of Texas, and Elizabeth Dole, head of the American Red Cross, are tainted by a close family connection to previous losers.

Mr Bush is, of course the son of the former president, and Ms Dole the wife of that high priest of unsuccessful election campaigns, Bob Dole, who lost the general election as vice-presidential candidate in 1976, the Republican nomination for president in 1988, and went down to ignominious defeat in the presidential race against Bill Clinton in 1996.

For the Democrats, though, the picture is rather different. Three of the party's last four candidates for president had not run (and lost) a national campaign before. Though it is still early days, and there is a chance that, as they did in 1976, 1988 and 1992, a candidate will emerge from relative obscurity to capture the nomination, it would be

unwise to bet on it.

In fact, if, as seems probable, the 2000 election is a battle of the previously unsuccessful, what it will most likely suggest is that American politics - on both sides of the political divide - are becoming increasingly the preserve of party insiders.

The simple reason is the name-recognition factor. It is easy to forget how unfamiliar the vast majority of would-be presidents are to the average American voter. The personal nature of a presidential election, the size of the US, the primary system and relatively weak partisan loyalty, all combine to remove the political compass for most voters.

The best hope, perhaps, is that Bill Clinton learned in 1992 that notoriety. Within weeks of his campaign start, he was the best-known candidate in that lacklustre 1992 field thanks to accusations of extra-marital sex, draft dodging, and marijuana smoking.

While it clearly did not help Clinton no harm most future presidential hopefuls still prefer to take the loser route.

150 من الأصل

INSIDE TRACK



TRAVEL UPDATE

Travel agents put accent on a new sort of booking

If you are on first-name terms with your travel agent, start looking for a new friend. Agency booking personnel are set to follow switchboard operators into oblivion thanks to the advent of voice recognition reservations systems.

Two US travel agencies – American Express and Omega World Travel – are at an advanced stage of developing systems that allow the traveller to make a flight inquiry and book a seat without human intervention.

David Pereira, Amex's senior manager of interactive corporate services, predicts that voice recognition, along with bookings made through personal computers, will be commonplace for simple trips within three years.

The main benefit is financial. "We are trying to eliminate the highly repetitive, simple transactions that make up two-thirds of our business," says Mr Pereira. Many companies now remunerate their agents through management fees, which can be reduced by removing personnel costs.

Dan Bohan, Omega's chief operating officer, claims the average cost of an air ticket transaction in a New York travel agency will fall from \$40 to \$12-\$15.

Bohan also maintains that voice recognition will be more convenient for travellers and will not leave them waiting for their calls to be answered.

The Amex and Omega systems work slightly differently. Omega customers are interrogated by the speaking computer, which

asks where they want to fly and the day and time. The computer then faxes or e-mails six possible flights, with six fare options for each.

Each flight/ticket combination is coded and passengers call back to announce their preferred speech patterns, so that after asking "How can I help you?" it responds to a sentence such as "I would like to travel from Chicago to Newark tomorrow at 8am."

The system consults its database and quotes the lowest available fare. Since customers submit a Pin number to gain access, Travel Talk can be made to quote fares and flights that only fall within a passenger's corporate travel policy.

Travel Talk also allows the passenger to change information such as dietary and seat preferences and even forecasts the weather at the destination. If it cannot deal with a request, travellers dial zero to talk to an agent.

The system recognises eight different American accents. As many again would be required for the UK, making its progress across the Atlantic some way off, but Omega says it will launch its system in the UK one month after its US introduction.

Amon Cohen

IN BRIEF

Airlines extend smoking bans

Smoking will be outlawed on dozens more flights during the next fortnight. British Airways, most of whose flights are smoke-free already, will extend its ban to all services from March 23. On the same date Lufthansa will do the same, while the whiff of Gitane is to disappear from Air France flights across the north Atlantic. On other long-haul routes, Air France will continue to provide special areas for smokers. Meanwhile, from April 1 Kenya Airways, which already forbids smoking on its domestic and regional services under three hours, will extend the ban across its network and Royal Brunel will introduce a ban on all but its Brunel-Osaka route.

Loosen up at that conference

Do you doze off at conferences? Inter-Continental Hotels has come up with an antidote. Instead of a black coffee break, it will arrange 10 fitness sessions under the supervision of trainers. At the group's Jakarta hotel, for example, delegates can loosen up with a massage and aerobics. In Miami, they can opt for body stretching, although the resolute sedentary may prefer one of the Florida hotel's 10-minute mini-lectures.

Manchester air route challenge

Fresh competition comes to the UK's London-Manchester route on Sunday when British Midland takes on British Airways with eight flights a day from Heathrow and dedicated business-class cabins. Economy fares on the new service will start at £59 return. Cheapest business class round trip will be £178.

Dubai terminal set to open

A new terminal designed to handle 2.5m passengers a year is scheduled to open at Dubai Airport next month. The development is part of a \$540m (£324m) programme, which

New-look Qantas cabin takes off

This week Qantas is unveiling its new-look first-class cabin, although travellers won't be able to sample it until June 18, writes Gill Upton. Qantas has emulated and arguably improved partner British Airways' fully reclinable, individual "booths" by reducing the partition between seats and taking out two seats to make for a more spacious feel to the 14-seat cabin. Qantas will also start fitting new seats for business and economy in June.

Roger Bray

	Mon	Tue	Wed	Thu	Fri
Tokyo	10	15	14	13	18
Hong Kong	22	20	22	23	22
London	10	12	13	13	13
Helsinki	8	11	12	12	13
New York	8	5	7	12	16
Los Angeles	21	20	18	17	19
Milan	12	14	16	16	15
Paris	10	12	13	15	12
Zurich	6	8	11	14	12

Metre scale in Celsius
Source: Meteo France

BUSINESS TRAVEL HEALTH

Beware of low flow on aircraft

Farrol Kahn on the chances of getting a mid-air blood clot

Air travel has been shown for the first time to be a significant factor in causing blood clots by a recent study at a Honolulu hospital.

Undertaken by Dr Alicia Mercer and Dr Joel Brown, the study has demonstrated that about 50 per cent of patients with the condition travelled by air within 31 days before their symptoms developed. All had flown non-stop for four hours or more and 38 per cent had no predisposition to this condition. Such clotting, known as deep vein thrombosis (DVT), can occur to anyone of any age or sex.

In the UK, there are an estimated 90,000 cases of DVT a year, according to European Union figures, and about 34,000 deaths when the clot breaks free and lodges in the lungs. This is the cause of about 20 per cent of sudden deaths, according to Dr Emile Ferrari at the Hospital Pasteur in Nice, who also conducted research into

the condition. DVT can also occur in passengers travelling on other forms of transport when journeys are prolonged or seating conditions cramped. A seated person's circulation is cut by 50 per cent after only a few hours and the blood pools to form swollen feet and ankles.

However, impaired circulation alone is not enough to produce the condition. Other factors include dehydration, eating fatty meals, smoking, varicose veins and surgery within the previous three months.

The onset of blood clot symptoms – which include pain, swelling, redness and sometimes a fever – in the US study occurred on average a fortnight after the flight. But some people had signs during the travel and others a month later.

The most dramatic incidents that occurred inflight happened to frequent flyers who had taken sleeping tablets and slept for hours in a cramped position. Two cases involved middle-aged men, one of whom might have died had it not been for a defibrillator on board.

Roger Hunt, a 55-year-old

marketing director from an asset management company, flies regularly to the US and Australasia. He collapsed on the way to the lavatory on a flight between Singapore and London.

A doctor on the flight said Mr Hunt had no history of

RISK FACTORS

- for deep vein thrombosis:
- o Smoking
- o Varicose Veins
- o Family History of DVT
- o Recent surgery
- o Past injury especially to abdomen, pelvis or legs
- o Cancer
- o Immobility
- o Use of oral contraceptives
- o Obesity
- o Pregnancy

Sources: *Annals of Internal Medicine* and *American Journal of Surgery*

PREVENTIVE MEASURES

1. Avoid taking sleeping tablets. If you do, ensure you do not fall asleep in a cramped position.
2. Keep your feet on the leg rest at its highest elevation.
3. Take aspirin. It thins blood.
4. Preflight, moderate exercise, such as brisk walking for 20-30 minutes in the airport prior to departure. This exerts a protective influence on the circulation and decreases the tendency of the blood to clot for several hours. Inflight, move your feet up and down to simulate walking. Exercise as much as you can in the aisle.
5. Passengers with varicose veins should wear elastic or support stockings.
6. Drink at least one glass of water an hour.
7. Tall passengers should try to ensure they have bulkhead or aisle seats.



critical, as the death rate is 50 per cent. Mr Hunt considers himself lucky to be alive.

Robin Littlewood, a company secretary of Fletcher Challenge, the resources group, was involved in another emergency and almost died. His heartbeat

stopped twice, but fortunately the Qantas flight he was on carried a defibrillator. Mr Littlewood believes that airlines should warn frequent flyers of the DVT hazard.

Airline pilots are informed of the risk of DVT and preventive measures. The Aerospace Medical Association also advises against sleeping pills on flights.

Dr Ferrari said the risk of blood clots in travellers is three times greater than that among non-travellers. People particularly at risk include those with a family history of DVT, women taking oral contraceptives, passengers taking sleeping pills inflight and people with leg injuries.

The author is the director of the Aviation Health Institute, 8 King Edward St, Oxford OX1 4HL.

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INSIDE TRACK

TECHNOLOGY TYRES

Tyremakers on move with latest models

Flexibility is the key to success for big producers, writes John Griffiths

They are playing a new game in the world tyre industry - "what's my codename?" At Goodyear in the US, it is Impact, while Italy's Pirelli has Flexi and Michelin of France, with characteristic coyness, has CSM.

It is a sign that the world's big tyremakers are on the move. As their customers in the motor industry develop an ever-wider variety of models, the tyre industry is having to respond with new production methods, tyre technologies and ways of thinking.

Tyremakers believe it is essential to match the trend towards fragmentation in new car markets, and that means greater manufacturing flexibility in the tyre factories. The codenames mark the rival tyremakers' differing responses, which have been developed in considerable secrecy over the past few years.

"After a long period in which production methods have been relatively stable, now there are new systems on the

way for the whole industry," says Giovanni Ferrario, Pirelli Tyres' general manager. "The first innovations have been defined and now everybody is following and identifying new methods."

Recently Goodyear announced that it is to introduce Impact, new production processes that would increase productivity by 135 per cent, halve the number of tyre manufacturing steps, reduce direct labour by 35 per cent and materials by 15 per cent. Its announcement followed the installation by Michelin at several plants of CSM, a radical change in process technology that requires only one-tenth the space of a conventional tyre production plant.

Pirelli has been getting in on the act too. Some months ago it introduced a process called Flexi at its Breuberg plant in Germany. The new approach can produce large, high-performance car tyres - which can sell for \$300-plus each - in batches as small as 100. The Flexi system is already producing 1,000 tyres a day.

Now the Italian company is going further. It is in the advanced stage of developing a highly flexible, automated

tyre manufacturing system that will start to come on stream later this year. Executives say the system - yet to receive a codename - will put the group on level terms with the new technology being introduced by Michelin and Goodyear.

The technology has been developed mainly at Pirelli's Milan research centre. It is designed to slash production times and costs across much of the group's mainstream tyre ranges, while greatly reducing the minimum batch size, which can be produced viably to just a few hundred. According to Mr Ferrario, the company will be able to take \$300m (£120m) out of costs this year and next, although he does not say how much of this will be accounted for by the new process.

Pirelli's management refuses to discuss details of the new system, but it is understood to differ considerably from the process introduced at Breuberg.

"Flexi has given us a start at the high-performance end; now we are defining solutions for the lower end that will give us the necessary flexibility and lower costs," says Mr Ferrario. "The results will be evident before the end of this year."

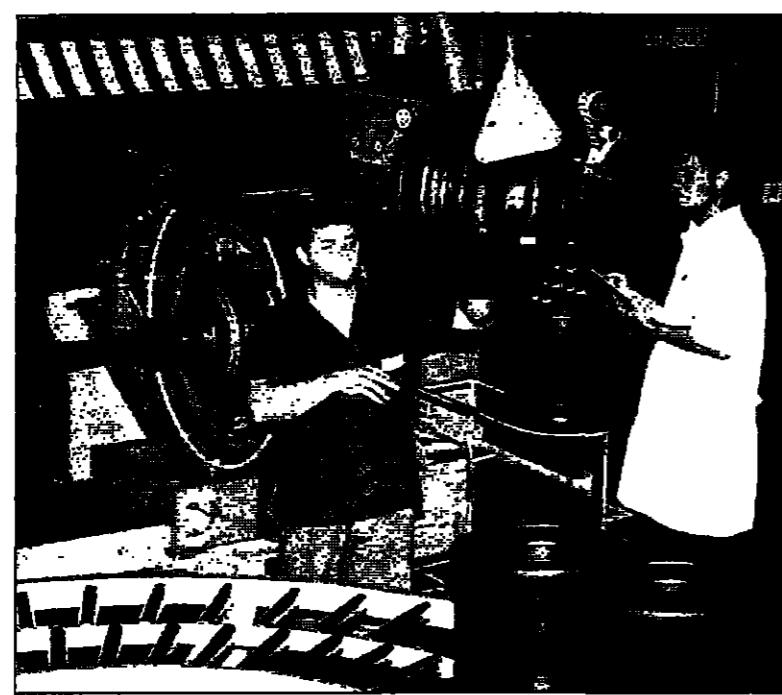
The new systems and processes promise to give the French, Italian and US groups a big competitive advantage, unless other tyremakers can demonstrate similar productivity and cost improvements. Bridgestone of Japan and Continental of Germany are known to be working on new production technologies, although few details have emerged.

"Michelin and Goodyear have done a very good job; but I believe all the major tyre companies, not just Pirelli, are identifying new systems," says Mr Ferrario.

Pirelli, like its larger rivals Michelin and Goodyear, expects to introduce its new system gradually because of the need to amortise investment in conventional systems. "I don't think we will be at a big disadvantage - although I understand that we now have to speed up to show that we have our own answer to these rival systems," he says.

With a turnover in tyres of \$3.5bn last year, Pirelli is the world's fifth-biggest tyremaker, behind Goodyear, Bridgestone and Michelin - each with sales of \$12bn-plus - and Continental, with annual sales of more than \$5bn.

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Gripping stuff: The new techniques in tyremaking will more than double productivity

GREEN CONTENT

Carbon copies that get a grip on energy

Silica content in tyres helps reduce fuel consumption

TOver recent years tyremakers have introduced "green", or low rolling resistance, tyres by replacing much of the carbon black with silica.

Carmakers like a high silica content because it helps reduce fuel consumption, writes John Griffiths. But grip, handling performance and wear are compromised by the relative absence of carbon black, one of the traditional materials used in tyres.

Pirelli has now come up with a new formulation of polymers that has allowed the silica and carbon black to work harmoniously together within the tread compound.

It is being used in what Pirelli calls its first "world" energy-saving tyre, the P3000 range, which was launched in Brazil earlier this month.

Covering the strategic T speed rating segment - up to 190km per hour -

which accounts for 65 per cent of total world car tyre demand, they are to be produced in Italy, Spain, the UK, Turkey, Brazil and Argentina. Combined output is planned to reach 6m a year, with sales destined for 60 countries. Marco Tronchetti Provera, Pirelli's chairman and chief executive, says the new tyre demonstrates the group's ability to remain competitive even outside the high-performance sector in which it is best known.

The Pirelli launch follows hard on the heels of Michelin's development of a silica/carbon black "hybrid" compound for a new range of flagship Pilot Sport high-performance tyres.

Michelin, Europe's market leader, has introduced several other innovations in the tyres, including lightweight high-strength steels for bracing. The under-tread compound uses carbon black to increase the stiffness of the tread area, with the tread compound combining silica and carbon black for good wet grip and dry handling.



Treading carefully: Tomorrow's tyre, a silica/carbon black compound

TIM JACKSON
ON THE WEB

IdeaLab answers an entrepreneur's prayer

A specialist in 'incubating' company start-ups on the web meets an increasing need as the internet develops

out a few weeks later with enough money to pay other people to deal with the minor headaches. This means that you - and the team the venture capital has helped you put together - can concentrate on the important headaches.

Outside Silicon Valley, however, what is an internet entrepreneur to do? One answer is to go to a company such as IdeaLab (www.idealab.com), which specialises in "incubating" Web start-ups. IdeaLab's founder is Bill Gross, a serial entrepreneur whose career began in school when he resold wholesale sweets to his classmates and triumphed when he was barely 30 with the building of a \$100m (260m) CD-Rom business called Knowledge Adventure.

That is why the human infrastructure of Silicon Valley provides such a hospitable breeding ground for start-ups. Nearly every service a small company needs is available on a short-term, outsourced basis. If you are the right person with the right idea, you can walk into a venture capitalist's office and come

Gross makes a modest seed investment (say \$200,000 for a 49 per cent stake). This provides the business with services that include legal and professional help, a team of programmers and graphic designers, and often office space in the IdeaLab building at Pasadena, in suburban Los Angeles.

With at least six projects prominent players in the new web economy, Mr Gross can claim a hit rate higher than the average unaided start-up

Mr Gross calls it "start-up in a box". The number of companies in the stable is fast approaching 30.

Three of IdeaLab's companies have already been covered here: WeddingChannel, which provides an online wedding registry, information for prospective brides and grooms, and chat groups for guests; E-Toys, competing

with Toys R Us by selling toys mail-order across the US; and IdeaMarket, selling newspaper articles and other information on a per-item basis for a few dollars a time.

IdeaLab's most successful venture to date is CitySearch, a localised listings service that spawned a competing offering from Microsoft. Its latest bet is also a search product - this time a simple search engine

called GoTo.com, where the order in which results come up is dictated by how much the websites that appear in the listings choose to pay.

Mr Gross has claimed in US magazine interviews that most of the ideas for IdeaLab companies have been his own. But he is wise enough to limit himself to a minority stake, so that the people running each of the horses

in his stable feel a full sense of ownership and responsibility.

Given the development of the internet, it would be asking too much to expect IdeaLab projects to be making money yet. But with at least half a dozen projects now prominent players in the new web economy, Mr Gross can already claim a hit rate higher than the average unaided start-up or than the average seed fund.

What is odd about IdeaLab is the fact that its situation in the well-served Los Angeles area puts it only a few hours' drive from Silicon Valley. The usefulness of services such as this one probably increases exponentially the further you get from Palo Alto. Places where IdeaLab is most actively needed are London, Hong Kong and Bangalore.

So why are there no clones of the idea further afield? Probably because putting together such an incubating system is harder than it looks. To add real value, as opposed to merely giving the appearance of adding value,

IdeaLab has to have far-reaching connections with potential partners and sources of funds.

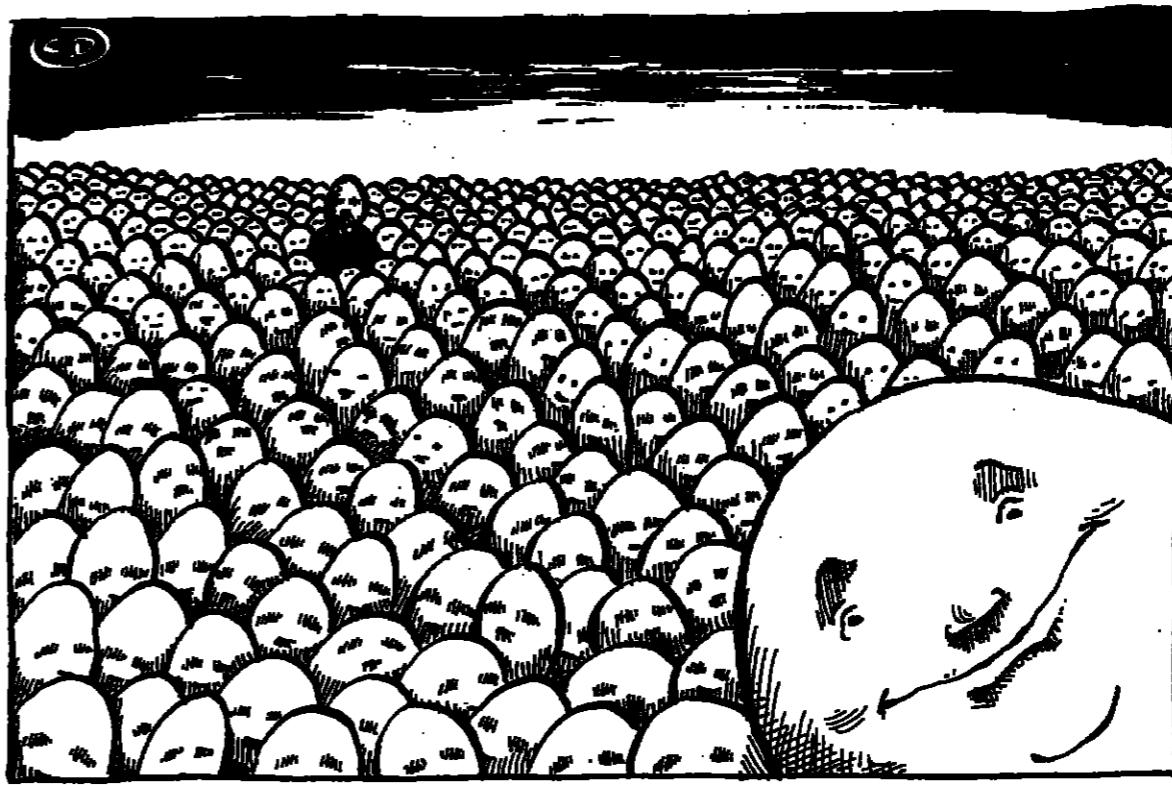
It also has to have a team of crack programmers and designers in place to help the emerging entrepreneurs. The start-up-in-a-box service is harder to provide in regulated markets and across more than one jurisdiction.

That is not to say that international expansion is impossible. It is simply that a successful foreign clone of IdeaLab would require money, connections, top-flight technical people and advisers, and bags of entrepreneurial drive.

This combination of assets is not impossible to put together. But entrepreneurs considering taking a leaf out of Mr Gross's book should ask themselves a tough question. Instead of starting a business whose job is to start businesses, would they perhaps have more fun - and rewards - by starting an internet business directly on their own?

tim.jackson@pobox.com

150 من الأصل



MANAGEMENT RECRUITING NEW TALENT

When the boss is chief scout

Finding the best is an urgent priority for US executives, says Victoria Griffith

TSteve Jobs of Apple Computer says it has taken him half his life to fully realise the value of talented people. "I used to think a good person was worth two mediocre workers," he said in a recent speech. "Now, I think a good person is worth 50 mediocre workers."

Superbly talented and hard-working individuals will not screw computer boards together faster than 50 others. But they may be 50 times more likely to have a brilliant idea that pushes the organisation forward, and that is probably what Mr Jobs is talking about. Because of Apple's need for idea-generators, he says he spends about a quarter of his time on research and development.

As head talent scout, he is joined by many others in corporate America. Al Zeien, chief executive of the consumer products group Gillette, says 40 per cent of his time is directed at finding the best people within and outside the company. Mike Ruetgers, chief executive of the computer group EMC, estimates his job is 30 per cent recruiting.

Nigel Morris and Richard Fairbank, co-founders of Capital One, a big credit card issuer, conducted 2,000 interviews last year. In the end, they made only 30 job offers. "It seems like a lot of effort for just a few good people," says Mr Morris, "but it's worth it."

Other companies, including the food group General Mills, Citibank, and the energy corporation Enron, say their senior executives participate directly in the recruiting process, conducting some of the interviews themselves. The involvement of corporate top guns has become so prevalent that MBA candidates at the elite schools now expect to meet senior level managers on campus.

"Companies can't afford that disconnection between talking about how important

name alone is no longer sufficient to attract attention. General Mills says the company could once fill auditoriums with students eager for a job simply by putting up a poster. That is no longer the case. "It has become incredibly competitive," says Ken Powell, president of General Mills' cereal division, who personally conducts interviews with Harvard students.

The tight labour market in the US is making the need for talent scouting more pressing. "Many companies in the US have moved away from a hierarchical, process-oriented workplace to one that values creativity and initiative."

Many companies in the US have moved away from a hierarchical, process-oriented workplace to one that values creativity and initiative'

mean conducting formal interviews. Mr Ruetgers of EMC says he scouts talent in many places: at charity functions, conferences and other events. "I'm always on the lookout for good people, and so are most of the other computer company CEOs," he says.

Senior managers say they often have a different agenda in the hiring process than other staff. Dean Humphrey, head of Enron's ECT division, complains that human relations divisions too often look for people to fill specific job openings. Mr Humphrey says he searches for talent, then finds a position to suit the person. "You need to be at a certain level in the company to have the self-confidence, and the power, to do that," he says.

Dwight Gertz, president of the Massachusetts-based consulting group Symmetrix, says he has seen human relations people bungle recruiting too many times to entrust hiring to mid-level managers. "I saw one company's presentation to MBA students that made taking a job there look like a year-round picnic," he says.

"All the slide pictures showed people at company parties, retreats, or after-hours socialising. Was this really the message the senior executives wanted to send? I don't think so."

Upper-tier involvement in recruiting is even more crucial, says Mr Gertz, if managers are trying to effect change: "Even if your workers embrace a new vision, it's hard for them to translate that into recruiting. Leave it up to the lower levels and you'll likely get more of the same."

BusinessWeek

In this week's issue

- Business Week 50: ranking America's best performing companies
- Are European companies ready for the Euro?
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THE ARTS

OPENINGS

PARIS
The Musée Carnavalet is showcasing objects of art (right) and silver made by French jeweller Chaumet from the age of Napoleon to the present. It opens on Wednesday and runs until the end of June.

WASHINGTON
The National Gallery of Art has put together the first major retrospective of Alexander Calder in the US since his death in

1976. The exhibition includes work from all stages in his career, with special emphasis on his sculptures. It opens on Sunday and moves to San Francisco in September.

THE EYRE REPORT

Last chance saloon for London opera

Andrew Clark weighs up the options for Sir Richard

After *The Judas Kiss*, now comes the poisoned chalice. Having steered David Hare's play to its stage premiere last week, Sir Richard Eyre today starts finalising his review of opera and ballet provision in London. As a former head of the National Theatre, Sir Richard is adept at switching from practical stagecraft to political manoeuvre. But plotting a course around the dinosaurs of London's lyric theatre will test his skills to the full.

Over the next fortnight, Sir Richard will conclude a lengthy process of canvassing opinion from 450 key figures in music, opera and ballet. On April 4, he will meet members of his panel – four from the Arts Council, two from the department of culture, plus Mark Elder, Graham Vick, Colin Neary and a handful of other respected arts figures – for a brainstorming weekend. Sir Richard will then have three weeks to write his report before submitting it to UK culture secretary Chris Smith on May 1.

The crisis... is not artistic but a crisis of political and social confidence in opera'

plus Mark Elder, Graham Vick, Colin Neary and a handful of other respected arts figures – for a brainstorming weekend. Sir Richard will then have three weeks to write his report before submitting it to UK culture secretary Chris Smith on May 1.

When the panel was formed in November, it included representatives of the three companies at the centre of the crisis – the Royal Opera, the Royal Ballet and English National Opera. Sir Richard soon realised their presence would hinder a frank discussion of what was wrong and how to put it right. That is why Mary Allen, chief executive of the Royal Opera House, and Paul Daniel, music director of ENO, are no longer part of the review.

"Eyre has an amazing 'third eye' on what happens," says one member of the panel. "Having gathered opinions from informed people at home and abroad, and interpreted them his own way, he's in a position to produce one of the most important documents for the future of the art form."

The cynics are not so sure. Thanks to high ticket-prices and

financial mismanagement at Covent Garden, opera has become a political hot potato – too hot for Tony Blair's government to handle. That is why the Eyre review was set up in the first place. "The crisis... is not artistic but a crisis of political and social confidence in opera," argues Peter Jonas, former ENO general director and now intendant of the Bavarian State Opera. Writing in *Opera* magazine, Jonas says "money is not the problem any more than it ever was, and... cannot be in a country where £75m is to be spent on Mandelson's Dome."

Nevertheless, money for opera is a problem for a government which equates culture with the "creative industries" of film, video, design, rock and pop. This leaves Eyre with a choice. He could acknowledge New Labour's discomfort with the arts, stick within the parameters of what is politically acceptable, and advocate a slimmed-down Royal Opera House, with greater emphasis on community work, education and touring – peripheral activities which cost the taxpayer nothing extra. If he does this, he risks the collapse of the infrastructure for opera and ballet which was developed in the UK from the 1950s to the 1970s.

Alternatively, Sir Richard can stick his neck out and state in the clearest possible terms that:

■ Opera and ballet are an important part of the UK's performing arts tradition, and need to be better understood and nurtured.

■ The problems in London are symptomatic of a wider crisis throughout the country, brought on by the failure of successive governments to maintain previous levels of arts subsidy.

■ The London problem is primarily a Royal Opera House problem, caused by flawed management and a pricing policy which encourages an atmosphere of social exclusivity.

■ The only way to improve access to the ROH is to increase its subsidy, subject to strict guidelines on re-structuring, ticket prices and marketing schemes to widen the audience range.

■ Audiences identify a company with its home, and the ENO's tradition of English-language opera, performed by its own ensemble, is best served at the Coliseum.

Talk of privatising the ROH – a mantra of Gerald Kaufman, chairman of the parliamentary select committee on culture – is little more than mischief. It would institutionalise a system whereby access is governed by an individual's buying power – the very type of elitism New Labour is seeking to destroy. A privatised ROH would remove from public control the facilities which £75m of lottery money helped to provide. And to be successful, it would require a more fundamental review of taxation than setting up a few incentives for business sponsors.

The question of funding is central to the Eyre review. If opera houses are to be supported by the state, they need to be funded at a level that makes the highest quality of performance accessible to the majority of people who want to go. Putting this into effect at the ROH depends not just on lowering seat prices and increasing broadcasts; it demands a change of culture.

Taking into account the disastrous impact of board interference over the past decade, Eyre should make clear that the board's role is non-executive and limited to fund-raising. He should

insist that Mary Allen be replaced by a properly experienced general director, with full executive authority for administration and programming. And by calling for the dissolution of the opera and ballet boards, and the designation of a ballet director beneath the general director (as at the Bastille in Paris), Eyre would offer the ROH greater artistic focus, ending the constant battle over who gets priority.

*Opera and ballet are an important part of the UK's performing arts tradition, and need to be better understood and nurtured'

Eyre should make clear that the only practical alternative to higher funding is a continental *stagione* of nine or 10 productions per season – with the caveat that it would still involve high fixed costs and high seat-prices, while offering a poor return on money invested in the building.

On the question of touring, Eyre can point to hard evidence that it costs more than staying at home, and that although audiences are not finite, they are best developed through relationships

with a particular ensemble. That is what the "sphere of influence" policy for regional companies is all about. If you send the Royal Opera to the regions, do you patronise them with a watered-down version of the real thing? If you offer them the real thing, how will it be financed and what impact will it have on less glamorous companies?

To suggest that regional audiences would be happy with slimmed-down productions is a production – which costs a lot of money.

New work is vital – in the right context. That is where ENO's contemporary opera studio comes into play. Eyre should praise ENO as a hard-working, community-orientated company, with a balanced repertoire, a mixed audience and a variety of programmes aimed at breaking down public perceptions of opera as socially and intellectually exclusive.

Finally, Eyre should squash the idea of a dedicated dance house. The problems of ballet repertoire, with a public hooked on three-act classics, are even greater than in opera. The Royal Ballet has a purpose-built home in Birmingham; the Coliseum can continue to serve as a receiving house in the Christmas and summer breaks.

In his letter to Eyre last November, Chris Smith referred to the ROH redevelopment as "a unique chance to look to the long-term, and secure the future of all three companies at a time when fundamental change is... inevitable." Whether the political will exists to implement Eyre's recommendations remains to be seen.

www.nyopera.com
La Bohème: by Puccini. Conducted by George Manahan and staged by Graciela Sciutti; Mar 26

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From Whistler to Sickert: joint retrospective of the two painters

which aims to introduce their work to the Spanish public by contrasting their differences. The exhibition will demonstrate the influence of Whistler on Sickert. Whistler introduced Sickert to Degas, who in turn was to become a major influence; to May 17

OPERA

English National Opera, London Coliseum

Tel: 44-171-632 8300

● La Bohème: by Puccini. Steven Pinnock's production is revived by Barry Atkinson and Frances Moore, and conducted by Emmanuel Joel (Alex Ingram from Mar 27); Mar 24, 26, 27

● The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hohenschild and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Mar 25, 28

THEATRE

Tel: 44-171-379 5399

● The Royal Opera: Così fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis (David Syrus from Mar 25, 27 Mar); Mar 23, 24, 25, 26, 27, 28

EXHIBITIONS

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Naked: by Luigi Pirandello, adapted by Nicholas Wright. Jonathan Kent directs Juliette Binoche in the elusive central role

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Naked: by Luigi Pirandello, adapted by Nicholas Wright. Jonathan Kent directs Juliette Binoche in the elusive central role

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COMMENT & ANALYSIS

PERSONAL VIEW HENRI MARTRE

Europe's counter-attack

The spotlight is on global competition in the aerospace industry and there are likely to be a number of surprising developments

In the past 12 months the European aerospace industry has been shaken by several important events, starting with the sensational announcement of the Boeing-McDonnell Douglas merger. Europe did not take long to counter-attack: the British, German and French governments issued their support for the merger of the "big three" - British Aerospace, Daimler-Benz Aerospace and Aerospatiale, and have asked the companies to present proposals for this restructuring by the end of the month.

The stage has thus been set for the 21st century. The spotlight is on global competition, first between the US and Europe, and extending to the two Asian challengers, China and Japan. The fate of Russia is undecided since it is not yet clear whether Moscow will be able to capitalise effectively on the country's technological assets to forge a position in world markets.

This is the broad scheme. But the situation will not be that simple since competition does not exclude co-operation. Japan is building its capabilities with US help, while China enjoys support from the US, Russia and Europe. The US and Europe have several common interests, cutting across nearly all sectors, including engines, equipment, satellites and even aircraft and missiles.

As the game is played out, we should expect a number of surprising developments. One thing is sure: US dominance in aerospace will continue, although we should take this as a benchmark and not an example to be copied slavishly.

In the short term, the European industry's goal is to complete the first step in

constructing a European aerospace group, uniting the main companies

that supply the world market

joined. The troupe could also well include Italian and Spanish companies, as well as other French players such as Dassault and Matra.

The simplest type of structure is one that reflects reality, in a three-level pyramid: on the top, the shareholders, in the middle, the parent or holding company and, at the base, the operating units.

Shareholders will be those who contribute the group's assets in this case British Aerospace, Daimler Aerospace and Aerospatiale, as well as any others who will be welcome to join the group.

These assets may be only a part of the shareholders' own assets, which will be transferred progressively, depending on the readiness of each sector. At this stage, however, a number of ideological and political questions already arise.

Ideological aspects include the question of compatibility between Anglo-Saxon, German and Mediterranean cap-

italism; political aspects include the question of state control over national defence industries and the balance of power among the shareholders.

In practical terms, we will have to ensure each level of the group - shareholders, parent company and subsidiaries - has access to financial markets, and stakes in the company must be open to institutional and other investors. This should not be an insurmountable problem, because the dilution of shareholding is inevitable, and in any case will have to be kept under control. State monitoring is also inevitable. In all countries the aerospace industry is considered a "sovereign" industry, and the majority of shares are in

the technology base. The way power is exercised within an industrial group is also a delicate issue.

The shareholders that contribute their assets are not ready to give up their prerogatives without some solid guarantees. Respective shares should be determined beforehand to ensure fairness and to avoid getting stuck on questions of asset valuation.

It will also be necessary to establish a decision-making process, with the most important decisions taken by a qualified majority. All of this implies that the original shareholders will maintain their national identities and control during our lifetime, although this control will gradually become diluted. Creating a parent company from the shareholders' head offices will bring up the classic problems of size, definition of functions and location - with the latter undoubtedly being the most difficult to resolve.

The subsidiaries will obviously be organised along product lines, giving us Airbus, Eurocopter and Ariane space entities, with others to be formed for combat aircraft, missiles and other sectors.

To ensure co-ordination and capitalise on synergies, the parent company will control these subsidiaries; but this does not exclude a variety of other shareholders taking equity stakes to account for established positions.

Nothing that I have described is impossible. But we will nonetheless have to set aside both ultra-free market and dirigiste ideologies, and face up to the realities of tomorrow. As the world becomes increasingly globalised at the dawn of the 21st century, the winners will be those who are able most effectively to blend flexibility, responsiveness and the ability to deal with complexity.

This will involve inter-governmental agreements concerning general strategies, plans and programmes, and state-industry contracts governing how programmes are carried out. This system should also provide the necessary guarantees concerning ownership of the production facilities, the location of high-value activities and the continued development of

The author is honorary chairman of the European Association of Aerospace Industries

ECONOMICS NOTEBOOK ROBERT CHOTE

Heavy burden of Africa's external debt

President Clinton should use his six-nation tour to give new impetus to the current initiative on indebtedness relief

another kick-start. African countries are not the only potential beneficiaries of the scheme, but they will enjoy the biggest gains.

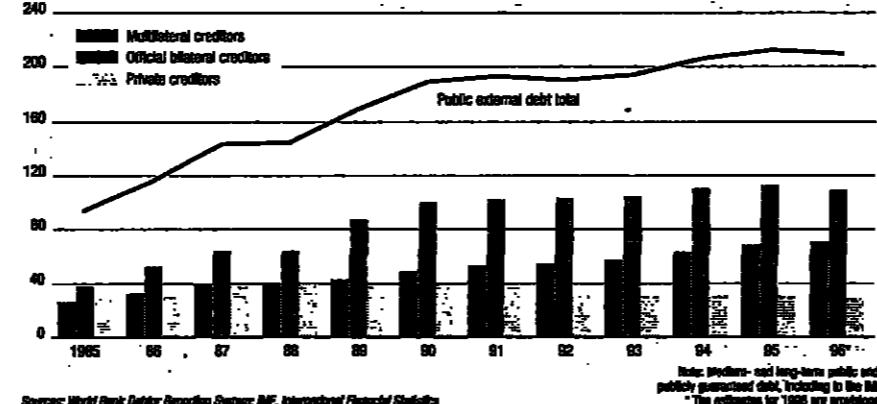
Many of today's highly indebted poor countries got into trouble when falling commodity prices saw their exports crumble in the late 1970s. They borrowed overseas to finance investment and to compensate for lost foreign exchange earnings.

When the debt crisis prompted most commercial banks to stop lending in the early 1980s, these countries were left to rely on government lenders and multilateral institutions. Between 1985 and 1995 their public external debt climbed from \$90bn to more than \$200bn.

The present initiative aims to reduce the debt burdens of poor countries to "sustainable" levels. In most cases it is assumed that these countries can sustain external debt with a net present value a little above 200 per cent of their annual export earnings. Once existing debt relief mechanisms have been

Highly indebted poor countries: a growing burden

Public external debt by creditor (\$bn)



applied, and assuming that the country has established a good policy track record, the various creditors share the task of reducing the overall debt burden to this supposedly sustainable level.

Last year debt relief worth \$1.6bn at net present value was agreed for Bolivia, Burkina Faso, Guyana and Uganda. The World Bank

promised \$285m, the IMF \$145m, other institutions \$380m and government lenders \$335m. Uganda should reach the "completion point" at which the promised relief is delivered next month.

But the initiative has run into problems with Mozambique, one of the poorest countries in the world. Mozambique needs \$1.5bn to reduce

its debt to a sustainable level, more than any other beneficiary and a fifth of the total.

As its contribution to the initiative, the Paris Club creditors have offered up to 80 per cent relief on eligible categories of debt owed to its members. But such a large proportion of Mozambique's debt is

owed to governments rather than multilateral institutions, that 80 per cent Paris Club relief would leave the institutions contributing more than their fair share.

The Paris Club countries

eventually agreed to do more in January, effectively raising the relief they offer to 86 per cent. But this still leaves a \$100m funding gap. Britain has offered \$10m, Canada \$7m and the US is expected to offer relief equivalent to 88 per cent through the Paris Club. The Dutch and Nordics are also contributing.

Most participants expect bilateral donors to meet two-thirds of the gap, with the multilaterals meeting a third. One possibility would be to tap a \$170m interest subsidy fund held in the World Bank by a variety of oil exporting nations.

It would be surprising if such a relatively small gap could not be filled, but the delay in closing a deal is causing a few chewed finger nails.

One problem is agreeing the terms for Russia's contribution to Mozambique. If

this proves a serious obstacle, it does not bode well for the likes of Nicaragua, Guinea Bissau and Tanzania, for which Russia is also an important creditor.

The Paris Club countries

would be a milestone for Mozambique for the initiative, but other challenges remain. One concern is that Ethiopia's participation in the initiative may be unduly delayed because its 1996 "enhanced structural adjustment facility" agreement with the IMF has lapsed. Ethiopia should be back on track soon and it would be unfortunate if its lapse did lasting damage to its hopes of debt relief.

Some creditor countries that have always had doubts about the plan - notably Germany - are worried that Mali is now seen as eligible for help. Mali's debt was originally thought to be sustainable under existing mechanisms, but three factors have changed the picture for the worse: weaker exports, lower world interest rates and the discovery of

more loans on its books.

Critics fear that other countries may follow, raising the cost of the initiative from its current \$7.5bn. But, in fact, the cost of the initiative seems more likely to fall than rise, not least because a one-year delay in Ivory Coast's eligibility will reduce the cost of its relief.

Critics who argue that the initiative is not generous enough may point to Mali as evidence that the sustainability calculations are based on systematically over-optimistic assessments of export performance.

The counter-argument would point to Uganda, where better-than-expected export growth means debt relief will be slightly more generous than originally intended.

With luck, President Clinton will use his trip to Africa to give new impetus to the debt relief initiative. The US has strongly supported the initiative, although its insistence on long policy track

records for potential benefit clarifies that some of its more liberal supporters.

At the very least he could recommend lifting the initiative's "sunset clause", which would keep it open beyond September this year for countries such as Rwanda, Burundi and the former Zaire that do not yet have programmes with the IMF.

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PERSONAL VIEW JOHN GRAY

When the dream turns into a nightmare

The US believes it has discovered the secret of 'a new economic paradigm'. But its over-confidence is a recipe for disaster

likely to die in its first year of life, more likely to learn to read, and could expect to live two years longer than an infant born in New York.

The benefits of American productivity are unevenly shared. Economic inequalities have increased considerably over the past 20 years.

A small class of stock-owners has done rather well for itself, while middle-class incomes have largely stagnated. A new class of working poor people has emerged

model to be emulated as a warning to be heeded.

European and Asian countries need to make their economies more flexible. But in most countries, the American model of labour market deregulation and welfare reform is a recipe for social - and sometimes political - instability. It is often claimed that in an age of globalisation there is no alternative to the free market.

Yet increasing interconnection among the world's economies does not make the spread of free markets inevitable - or always desirable.

The challenge of globalisation is to reconcile the competitive pressures of world markets with the needs of social cohesion. As world markets become more volatile, it will become increasingly clear that the US's unsurpassed productivity has been bought at a price that few other countries can - or should - pay.

The author is professor of European thought at the London School of Economics.

The American free market is riding high. Declinism - the belief fashionable in the 1980s that the US's economic lead could not be maintained - has been replaced by triumphalism.

The US's policy-makers are using their power in transnational organisations to preach the virtues of American free market capitalism, with governments throughout the world being advised to emulate the American model of deregulation, flexible labour markets and welfare reform.

The Soviet collapse and the Asian crisis, America's much-admired record in job creation, and a sky-high stock market are cited as proof that the US has discovered the secret of a "new economic paradigm".

But the US has not discovered the secret of perpetual growth and low inflation. History shows there is no such thing. The long boom of the past 15 years will end. And when it does, the welfare reforms that have torn

the biggest social experiment in the US since Prohibition - has produced an imprisoned population that only post-communist Russia can match. If the number of prisoners was taken into account, the US's employment record would look less impressive - at about 80 per cent.

The US's hire-and-fire labour markets have created millions of new jobs. But they have done so at a significant cost to social dislocation. American workers are many times more likely to move to a different region of the country than their European counterparts.

Mass mobility is indispensable to the US's deregulated labour market. But an "you-bike" economy scatters families and makes neighbourhoods more transient. American labour mobility

is now seen as eligible for help. Mali's debt was originally thought to be sustainable under existing mechanisms, but three factors have changed the picture for the worse: weaker exports, lower world interest rates and the discovery of

more loans on its books.

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LETTERS TO THE EDITOR

Banks have yet to show readiness for euro

From Lord Cobbold

Sir, Can banks turn the theoretical benefits of the euro into reality? Corporate treasurers see two fundamental advantages to be gained from the euro - low cost, same day, cross-border payments and euro-area wide pooling of cash balances.

Which bank is going to be the first to offer these services? There is no doubt that the first to do so will reap considerable commercial advantage.

It will also be more difficult to achieve during the transition period but that is only three short years in which to break down some deep-seated prejudices.

The challenge and commercial advantage lie with the banks. Will banks with branches or subsidiaries within each country be better placed to achieve the goal? Or will it be achievable by closer partnerships between individual banks in each jurisdiction?

Multinationals may be able to pressure their banks into providing a service for large payments, but what about small and medium-sized enterprises? And what about retail payments and standing orders?

If Visa and other credit

card companies can achieve real-time settlement for retail payments, why not the banks?

For corporate treasurers,

euro-area wide pooling of cash balances means offset-

ting euro credit balances in one country against euro debit balances in another, thus saving multiple transfers from diverse accounts into a central pool.

Currently, this is not even possible within some individual member countries of the projected euro-area, let alone across borders.

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If Visa and other credit

EDITORIAL

FINANCIAL TIMES

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Monday March 23 1998

A harder currency

The preparations for European monetary union are over, but the real task starts now. This was the message of the meeting of European Union finance ministers in England over the weekend. The meeting produced little hard news: Emu membership was not on the agenda. But, privately, ministers made clear that the central parties of the exchange rate mechanism are the rates at which membership of the euro will take place in January 1999. European business now knows the relative costs that will be captured in the single currency.

Reports are due this Wednesday from the European Commission and the European Monetary Institute, precursor of the European Central Bank, on the eligibility of Emu candidates. But there is no serious likelihood that any of the 11 would-be members will be rejected in the reports or at the May 2 summit which formally agrees the first-round entrants. Emu is on the way.

For countries which have struggled to meet the criteria, feelings of relief will be fleeting. Living with the system will be demanding and immediate.

Theo Waigel, Germany's finance minister, emphasised this point by urging Emu candidates to start obeying the stability pact - which punishes excessive budget deficits - this year, even though it does not officially start till 1999. He added two more proposals: countries with high debts

should accelerate steps to reduce them; and countries with a high proportion of short-term borrowings should lower this ratio.

This message was clearly aimed at Italy. Less obviously, it was aimed at reassuring the German public, worried about Italian fiscal laxity. But the underlying theme is relevant to all Emu members: living inside a monetary union imposes a heavy burden of discipline in fiscal behaviour, in domestic wage-setting, and in many previously sovereign areas of economic policy-making.

Governments' freedom of action will be eroded, in a way that many citizens fail to appreciate. Part of this web of constraints will come from market forces in a newly transparent single market. Part of it will come from peer pressure of the sort Mr Waigel was exerting. In a similar way, Gordon Brown, UK chancellor, criticised the wide country-by-country differentials in pricing for common consumer goods and services, such as food, compact discs, cars and telephone calls.

There may not have been much news, but the underlying message was vital for governments, businesses, trade unions and individuals. Under Emu, government behaviour will be constrained by the stability pact, private sector behaviour by newly transparent competition. Once May 2 comes, the die is cast.

Clinton in Africa

President Clinton's six-nation visit to Africa, which gets under way today, could hardly be more timely. The continent is at a critical stage in its economic reforms, needing substantial foreign investment as well as carefully targeted aid if the recovery is to be sustained.

Meanwhile, the end of the cold war, the disengagement from the region of the former colonial powers, and the challenge of a globalised economy are forcing Africa to reassess its relationship with the rest of the world.

In the 20 years since a US president last visited Africa, the region has undergone a revolution. Apartheid has been defeated, autocracy is giving way to democracy, and once stagnant economies are reviving, as Mr Clinton will be able to see for himself when he stops in Ghana and Uganda. But the optimistic note sounded by the president and his advisers must be tempered by realism. Nigeria, the continent's most populous nation, remains under a military regime, and Sudan's civil war continues. Kenya, once seen as an African success story, is mired in corruption, the new government in Congo (formerly Zaire) seems overwhelmed by its disastrous legacy, and Rwanda and Burundi are wracked by ethnic tension.

And while GDP growth in sub-Saharan Africa is averaging around 4 per cent, more than

double the rate of the previous 15 years, lost ground has still not been recovered. Even if this rate were sustained over the next decade, per capita income would still be 5 per cent lower than in 1974. The Clinton administration is right to stress that faster recovery requires more trade and investment, and the African Growth and Opportunity Bill, about to go to the senate, will reward African reformers with greater access to US markets.

But few African countries are in a position to take advantage of this. Roads and railways have deteriorated, management is weak, machinery is outdated, and the technology gap has widened.

Mr Clinton should do more, beginning with a commitment to help relieve the continent's crippling debt burden. This means greater US support for the World Bank's initiative to reduce the debt of the poorest countries, and backing for African governments' plans to put the money saved into health and education.

He should also do some frank talking. If Africa is to catch up with its international competitors and win the foreign investment essential to growth, it must do more to reduce bureaucracy, curb corruption and expand privatisation. In return, President Clinton should offer aid as well as trade: for all the progress of recent years, Africa remains a fragile continent.

Trading losses

On Monday of last week, Japanese investors in Yakult Honsha thought they owned shares in a producer of drugs and fermented milk drinks. By Friday, they had discovered that Yakult was a loss-making dealer in financial derivatives with a sideline in the more conventional products for which it was better known. The unexpected losses amounted to the not unimpressive sum of Y105bn (\$800m).

This dramatic turn of events serves as a reminder of the speed with which derivatives can transform the risk profile of a company; also of the slowness of the world's accountancy authorities in rising to the challenge. Even in the US, which first prised open this veritable Pandora's box, the Financial Accounting Standards Board is still struggling to impose a set of rules against powerful opposition.

The Japanese do appear vulnerable to losses in derivatives trading. Back in 1993, Showa Shell announced losses equivalent to \$65m as a result of unauthorised deals in foreign exchange forward contracts. It rapidly emerged that other companies had ceased to hedge and started to punt as the yen strengthened inexorably.

Then came losses on unauthorised dealing at Daiwa Bank and at Sumitomo Corporation, whose chief copper trader was speculating furiously on the London

Metal Exchange. These incidents should have caused other managers to re-examine internal controls. The unfolding story, of which Yakult is the latest chapter, suggests a less rigorous response.

Part of the problem is that the high-trust ethos of Japanese business has tended in the past to compensate for weak internal control. But the culture of trading is inherently individualistic and adversarial. And trading is what more and more corporate treasury functions are about, meaning that companies must be flexible and be able to admit mistakes. Saving face can mean losing rather a lot of money.

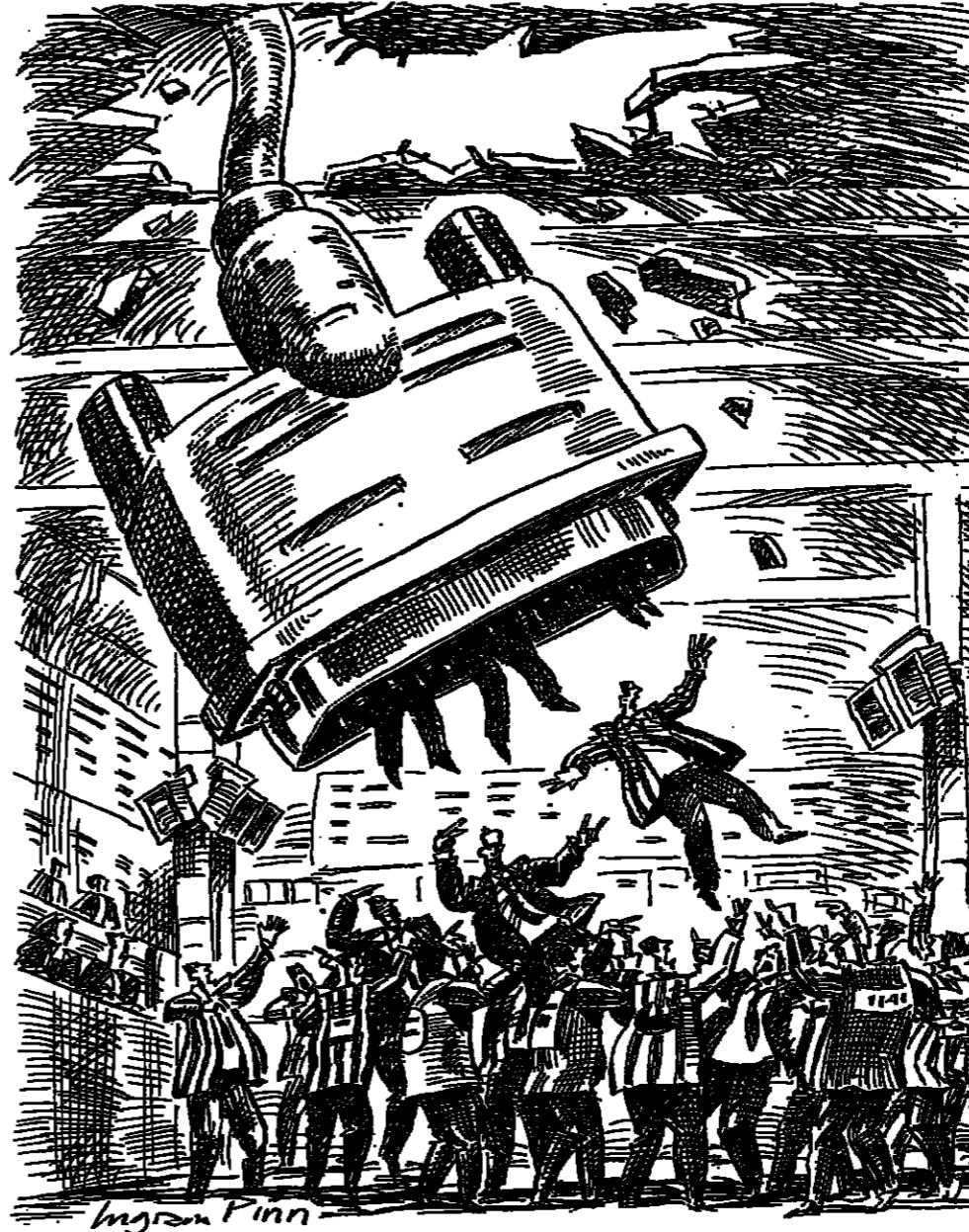
In many cases these disasters have been brought on by companies or individuals trying to trade their way out of trouble. This may well have occurred at Yakult, where diversification into pharmaceuticals and cosmetics had failed to produce the desired profits. The leverage in derivatives means that those playing the market can be made very rich, or very poor, very fast.

At least the Japanese have not succumbed to Western financial mores in one important respect. While senior managers at Barrings clung limpet-like to their bonuses after presiding over a banking collapse, those at Yakult have handed back the bonuses and taken a pay cut. There is evidence of honour in Japan.

COMMENT & ANALYSIS

Uncertain futures ahead

Nikki Tait on futures exchanges' tactics for weathering the storms of change that are presaging mergers, consolidation, standardisation and automation



Although most US exchanges can still point to a growth in trading volumes in recent years, their share of the risk management market has declined. A survey last year by the Treasury Management Association found that 71 per cent of corporate treasurers used interest rate swaps to hedge their exposure to future rate changes, for example, while only 10 per cent used interest rate futures.

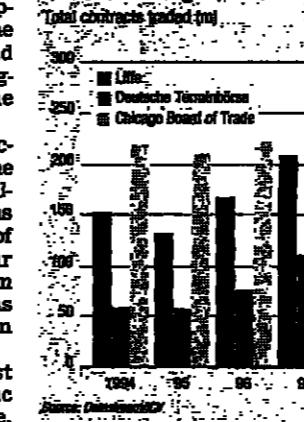
The catalyst behind this global change is competition. For much of the century, futures exchanges have had a local monopoly on their specific risk management products. Anyone seeking to lay off risk against a move in US wheat prices would use contracts traded in Chicago or, for slightly different types of grain, Kansas City. Anyone wishing to hedge against British interest rates would turn to the London International Financial Futures and Options Exchange (Liffe).

Now these monopolies are being challenged. In Europe, as countries move towards a common currency, many exchanges know that much of their local power will evaporate.

In the US the competitive threat comes principally from the 'over-the-counter' derivatives market, which has enjoyed explosive growth recently. OTC derivatives are risk management contracts, such as interest rate swaps, which are drawn up outside the regulated exchange environment and between sophisticated users, mainly large financial institutions.

The number of contracts traded this way surged by more than 40 per cent in 1995, and another 47 per cent in 1996. Latest figures from the International Swaps and Derivatives Association suggest that the notional value of outstanding contracts was around \$29,000bn by mid-1997.

The precise extent of cost savings offered by electronic trading are a matter of debate,



"You are talking about asking Goldman Sachs, Salomon Smith Barney, Macquarie Bank and Commonwealth Bank whether they want to trade electronically. You ask them that question and they'll say an emphatic yes," says Les Hosking, SFE chief executive. Small independent traders, or 'locals', whose business is most threatened by such a change, had no ownership position, and hence no meaningful voice.

Even at Liffe, which this month announced it would ask members to approve a system of parallel trading under which open outcry and electronic platforms would operate simultaneously, the politics are tilted in favour of the big trading firms.

By contrast, in the US, any shift from the traditional trading pits is made difficult because "locals" have a much bigger voice in the exchanges' governance. Tellingly, both CBOT and CME have expanded electronic trading after hours, but not let it make any meaningful incursion into the traditional trading day. "In the US, I don't see [full electronic trading] happening soon. It will take five to 10 years," forecasts Marc Breillout, president of Finmat Futures USA.

One big unknown is whether the parallel trading solutions, being touted by the likes of Liffe - still the second-largest exchange worldwide - and France's Matif, will prove sustainable. Advocates of this route argue that electronic markets do not always have the flexibility or depth of liquidity that open outcry can provide.

Jack Wigglesworth, Liffe chairman, points out that DTB's success in bond contracts has come in a relatively simple product line. Moreover, if the liquidity of an open outcry market can better that of an electronic system, transactional cost saving may be partly, or wholly, offset.

Not everyone concurs. "I personally don't agree with parallel trading method," says Mr Hosking. "It is a high overhead... and I think it's damaging to true price discovery."

Longer term, views are even more divided. "It is logical that exchanges will try to merge their trading platforms," says Mr Hosking, pointing to the CBOT-Eurex alliance. "[But] the most commonsense solution would be for a number of exchanges in different time zones to actually become one exchange, in the true fashion - instead of alliances."

Daniel Hodson, chief executive at Liffe, is more inclined to visualise a multitude of "rather mechanistic" trading platforms, offered by different exchanges but built around more unified clearing systems.

Perhaps one near-certainty is that there will be difficulties and delays. Nor will the changing industry structure make life easy for its regulators: while an electronic audit trail may look more visible, what goes on behind the screens is less transparent than a trading pit.

All this has futures trading firms struggling to keep pace: "it is a problem for us. We have to be extremely flexible," says Mr Breillout.

Still, there may be some brighter spots: even in Boca, the sun eventually came out. If transaction costs are pared back, the industry may have more scope for innovation, says Mr Pflauwadel, helping to offset some of those anxieties about change.

OBSERVER

Caravan parks in Kampala

When US presidents hit the road, logistics seem every bit as important as politics.

There are sound political reasons for Uganda being one of the key stops on Bill Clinton's six-nation African tour, which starts today. President Yoweri Museveni has been dubbed the "donor's darling" for his reform programme. But Kampala has another advantage. In Clinton's wake are 800 or so advisers, security personnel, journalists, congressmen, senators and general hangers-on: the city is one of the few capitals in Africa with enough hotel space.

Museveni also proved his organisational abilities when he hosted a January meeting between the World Bank and regional presidents; and he charmed US secretary of state Madeleine Albright and Hillary Clinton when they dropped in. As one Western diplomat put it: "He's proved he can give good meeting."

Kampala, one of Africa's more pleasing capitals, is having a vigorous spring-clean ahead of Clinton's arrival tomorrow. The grass is getting a short-back-and-sides, pavements are being rebuilt, rubbish collected and street children discreetly ushered away. First Lady Janet Museveni has posed, broom in hand, with a couple of ministers to encourage people to keep sweeping. Her husband is doing his own clean-up - he's off to the north to ensure that Lord's Resistance Army

rebels keep a low profile for the next few days. One of the LRA's murderous raids just might give the impression that Museveni is not in full control of the country.

Lining up

Gather Canada's Liberal party members in one place and talk inevitably turns to the tricky question of succession. Conventional wisdom has it that prime minister Jean Chretien will retire at the end of his second mandate in 2002. But the popular prime minister, now 64, raised a few eyebrows at the party's leadership convention over the weekend when he hinted he might run for a third term.

Needless to say, a host of cabinet members are eyeing the top spot, but can't quite bring themselves to say so. Leadership contenders refuse to address the issue, stating simply that the job is not open.

Finance minister Paul Martin, who is widely regarded as the most likely successor, says he'd welcome a third Christian mandate because the two politicians make such a great team. Martin was heard saying his ambition "is to be finance minister forever". Unless, of course, his country needs him.

Standard stuff

Alexander Au Shu-kee's abrupt departure from Hang Seng Bank has whipped up a storm of speculation over what made him leave one of Hong Kong's most august banking institutions, not to mention its

celebrated executive dining rooms. But Au's move has also set the tongues wagging about the succession stakes at Standard Chartered, which he's joining as executive director in charge of government relations and external affairs. Standard Chartered operates a retirement age of 60 for executives; chief executive Malcolm Williamson is 59 but with chairman Patrick Gillam in place until 2000, the limit is unlikely to be relaxed.

Other senior directors such as finance chief Peter Wood and David Moir, the Singapore-based director of corporate banking, are in their fifties.

So the hot money's been on two 40-something ex-Citibankers, Philippe Paliard and Rana Tawar. The bookies aren't adjusting their odds because of Au's arrival.

Although he was chief executive in his previous job, Hang Seng is a fairly local institution - arguably kept so by its masters at HSBC. While the impressive Frenchman has driven the expansion of Standard Chartered's consumer banking business, Tawar may have a broader strategic view of the bank.

Au could replace whoever becomes chief executive. Or he might return to Hong Kong and replace Asia region boss Mervyn Davies if he replaces Moir in Singapore. Never a dull moment...

clutching a \$20m cheque in exchange for the half-built 33,600-tonne Varyag - a useful bonus for a country where things are so tight that ministers have been told to cut down on foreign travel.

The collapse of the Soviet Union cut off funds to complete the Varyag and she's been rusting away since 1992 while alternative uses, such as a satellite launch pad, were dreamed up and discarded. Ukraine says it's being sold as a disco and amusement park.

But it seems that Macau has turned down an application to register the Varyag as a site for hotel, business and amusement facilities. In any case, Macau's harbour is not very deep and getting the carrier in might prove tricky.

There are some jitters in the region that the Varyag could end up in the Chinese fleet after Macau returns to Chinese rule next year. Ukraine says the sale contract forbids military use and in any case the purchase of a rusting hulk seems an odd way to boost Chinese seapower.

So is it to be boogies rights or bombers for the Varyag? Should be plenty of room for both.

Tender trap

One day in 1875, a fire station in Winnipeg burned down. The Canadian city built a new one, which shared the same fate in 1903. The third version still stands and has been chosen as the city's fireighting museum. But the project will prove costly - it doesn't meet fire safety standards.

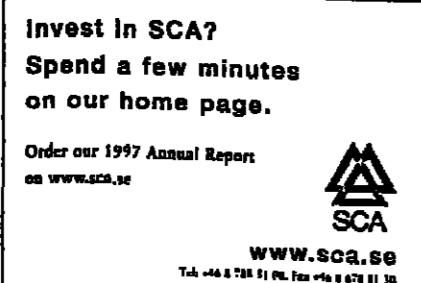
100 years ago

France Shields Its Farmers Paris 22nd March. The Senate to-day discussed the Bill raising the Customs duty on pigs, pork fresh and salted, lard and other pig products. M. Siegfried moved an amendment to Clause 1 lowering the general tariff from 40 to 25 francs and the minimum tariff from 25 francs to 5 francs.

He thought that the additional tax on lard would bear very hardly on the working classes, and also feared that the measure might provoke reprisals from foreign countries, especially the United States.

50 years ago

U.S. Car Output Dropped United States motor vehicle output in the first week in March fell sharply to 103,265 units from 114,884 units in the previous week. A large proportion of the decline was due to a drop in General Motors' output owing to a shortage of sheet steel. Figures issued of new registrations in the U.S. in 1947 show that the year's total for passenger cars was 3,167,231 compared with 1,815,196 in 1946. British car registrations in 1947 were only 145,000.



FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

Roche shows signs of spluttering

Swiss drugs group Roche is regarded as the Rolls-Royce of the pharmaceuticals world. But a splutter has replaced the purr of Roche's engine. The company is likely to report a fall in profits. Page 21

Dieter Vogel to quit Thyssen



Dieter Vogel (left) will resign as chairman of Thyssen, the German steel company, by the end of April. Mr Vogel had failed to win the top post in the group to be formed from the merger of Thyssen with fellow German steel group Krupp. Thyssen shareholders fear the company might be valued at less than its full weighting under pressure from Krupp. Page 20

Important week ahead for the yen

Traders will weigh up Japan's latest economic stimulus package. It is expected to be worth Y10,000bn-Y15,000bn (\$77bn-\$115bn), but if it is smaller the yen could drop from its already low rate of just below Y130 to the dollar. The week's most significant economic figures are arguably US personal income data for February, to be released on Friday. Page 25

Manila stock exchange up 50%

The Philippine Stock Exchange has soared 50 per cent from its January low. Page 20

INTERNATIONAL BONDS

Greece on convergence path

Greece is set to become the next market to see bond yields converge with those of the core European markets after its entry into Europe's exchange rate mechanism last week. Page 22

MARKETS THIS WEEK

New York

Analysts and traders expect continuing strength in the US stock market over the next few days. Page 23

London

The stock market, which won and lost the 6,000 level on the FTSE 100 on Friday, is seen as delicately poised by market dealers. Page 23

Tokyo

The markets are hoping for cuts in corporate tax and income tax to lift consumer spending. Page 23

Frankfurt

The Dax blue chip index rose above 5,000 points on Friday. Analysts expect the rise to continue. Page 23

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FINANCIAL TIMES

COMPANIES & MARKETS

MONDAY MARCH 23 1998

Week 13

Astra may shift more research overseas

Drugs group considers protest over Sweden's high tax and shortage of scientists

By Tim Burt in Stockholm

Astra, the Swedish pharmaceuticals group, may shift large parts of its research and development operations overseas in protest at high income tax and a shortage of scientists in Sweden.

The company, which produces Losartan, the world's best-selling prescription drug, is considering switching more of its research activities to the UK and US, where it is investing SKr1.2bn (\$150m) in new laboratories.

Astra's proposals reflect

increasing frustration among some of Sweden's largest companies, which complain that the country's tax burden hampers the recruitment of international managers.

Last week Ericsson, the country's largest exporter, announced it was considering moving its headquarters to London. The telecommunications group cited personal tax as one of the reasons.

The Swedish Employers' Confederation said a move by Ericsson could lead to an exodus by other companies.

Although moving headquar-

ters would be largely symbolic, the transfer of research and development by companies such as Astra could have a significant impact on jobs in Sweden.

Hakan Mogren, Astra chief executive, said the proposals were linked to the growing difficulty of attracting research scientists to Sweden.

"Research and development is crucial to the entire future of Astra, but our tax system is creating real problems in recruiting people from abroad," he added.

Mr Mogren also criticised a

pledge by the Social Democrat government to address taxation of expatriate executives. Under government plans due to be announced, overseas executives on short-term contracts could be offered lower income tax levels.

The Astra chief executive warned that it would create a divisive two-tier structure among Swedish and overseas researchers working for the company.

"It would lead to an unhelpful environment in our R&D teams. Instead, we are considering transferring more of our

research outside Sweden," he said.

Although he emphasised that the plan did not reflect a lack of ability among Swedish scientists, Mr Mogren warned that too few qualified graduates were emerging from Swedish universities.

Astra, which employs 3,460 scientists in Sweden and 2,630 overseas, is expected to expand its new research centre near Boston, Massachusetts, as part of the programme.

Last autumn, the company said it was investing SKr600m in the first phase of the proj-

ect, employing 70-100 scientists.

The second phase of the site is likely to involve a fourfold increase in the workforce over the next five years.

It is also investing SKr600m to expand its Charnwood research facility at Loughborough in the UK.

That could step up the shift towards overseas R&D at Astra, which has already grown from 20 to 40 per cent.

Since 1994, Astra's R&D spending has increased from 15 per cent to 19 per cent of group turnover.

Carlson founder to step aside at 83 as daughter takes the top job

Travel group aims to double revenues in five years

By Richard Tomkins in New York

If you're going to break through the glass ceiling, it helps to have the right genes.

Carlson Companies, the US travel, hotel and marketing group, is today expected to announce that Marilyn Nelson, its 83-year-old chief operating officer, will take over as chief executive.

The company says the move will make Ms Nelson - eldest daughter of founder Curtis Carlson - the world's top-ranking female chief executive based on size of organisation.

At 83, Mr Carlson, chairman and chief executive, has decided to step back from the day-to-day running of the business.

Carlson Companies - owner of Radisson Worldwide Hotels and the TGI Friday's restaurant chain - has a relatively low profile because it is privately held. But its Carlson Waggoner Travel business, a joint venture with Accor of

France, is one of the world's biggest travel management companies.

Carlson Marketing, another division, ranks as the world's 18th biggest advertising agency, and the Carlson Hospitality Worldwide division embraces hotels, resorts, restaurants and cruise ships around the world.

Mr Carlson, US born but of Swedish descent, founded the business as the Gold Bond Stamp Company, a trading stamp enterprise, in 1933, and built it up to its present size through diversification and acquisitions.

The company does not divulge profits, but said it had doubled its revenues every five years since 1973. The growth rate slipped in 1996, when revenues rose from \$4.5bn to \$4.9bn, but the figure jumped to \$5.6bn last year.

Carlson said that put Ms Nelson ahead of other female travel chief executives such as Jill Barad, chairman and chief

executive of Mattel, the US toy company, which had revenues of \$4.8bn last year, and Marjorie Scardino, chief executive of Pearson, the UK media company that owns the Financial Times, which had revenues of \$3.8bn.

Mr Carlson has worked at Carlson Companies since 1969, and was appointed chief operating officer last year. After his promotion to chief executive - expected to be announced during celebrations marking the company's 60th anniversary in Las Vegas today - Mr Carlson will remain chairman.

As so often with company founders, Mr Carlson has shown a reluctance to hand over power.

In 1988, after undergoing heart surgery, he appointed his son-in-law, Edwin "Skip" Gage, chief executive, retaining the chairmanship. Two years later, Mr Gage left to run his own business out of frustration at Mr Carlson's refusal

to let him run the company his own way. Ms Nelson said her objective would be to maintain the company's growth rate, doubling revenues in the next five years.

"We think our global power, the number of transactions and the amount of activity that we have will allow us to get enormous economies of scale," she said. "At the same time, we are going to decentralise those decisions that allow our organisations to be smaller, more agile, and more responsive to the customer."

Another early move will be to create a retirement policy, something the company has not had in the past. This would ensure her successor would not have to wait too long before rising to power.

It is no great secret who that successor will be. Waiting patiently for the inevitable is Ms Nelson's 34-year-old son, Curtis Nelson, currently head of the Carlson Hospitality Worldwide division.

Marilyn Nelson gets ready for a flight aboard a US Air Force F16 jet during celebrations marking the 60th anniversary of Carlson Companies

Shell set to delay North Sea development projects

By Robert Czerne in London

Shell UK, the British arm of the Anglo-Dutch oil company, is expected this week to defer a number of North Sea oil field development projects.

The move reflects the impact of lower oil prices, but has been triggered by the UK government's decision to extend

its review of the offshore fiscal regime.

The government announced last week that the review, which has been under way since last summer, will be extended by a year. Two options in particular - the reimposition of petroleum revenue tax abolished in 1993 and supplementary corporation

tax - are under consideration.

Both would have the effect of raising the overall tax levels.

Heinz Rothermund, head of Shell Expro, the Aberdeen-based exploration and development arm of Shell UK, told an industry gathering in Edinburgh at the weekend that the government did not appreciate

the damage to the industry that could stem from its proposal.

He said Shell - one of the top three operators and acreage holders in the North Sea - will not stop developing fields where work was already well under way, such as Shearwater and Schiehallion.

However the company was

looking closely at projects where feasibility studies were being carried out or where developments were in their early stages, especially in areas where there was no infrastructure in place.

Mr Rothermund said "so far the industry is united" around its theme that the government should be encouraging greater

investment in the North Sea and emerging frontier oil areas such as the Atlantic Margin.

The oil industry last week signalled it might make a direct approach to Gordon Brown, chancellor of the exchequer, to ask for tax relief given the 30 per cent fall in the price of crude oil over the past five months.

Rating the agencies

Is the Asian contagion finally

beginning to infect the

influential and immensely

profitable, international credit

rating agencies?

These institutions, which

have the power to force

investors to sell bonds by

shifting a rating below

investment grade level, were

put on the back foot by the

Asian markets' collapse, and

are struggling to recover.

Moody's Investors Service and Standard & Poor's had

COMPANIES & FINANCE

Analysts indicted by wrong-fooding in results season?

Andrew Edgecliffe-Johnson analyses the pattern of share price movements and surprises on company results days

There are about 1800 well-paid investment analysts in the City, each of whom generally scrutinises just one sector of no more than 20 companies. So the chances of those companies wrong-fooding the City when they report annual results should surely be minimal - shouldn't they?

However, a Financial Times analysis of share price movements during the current reporting season presents a very different picture. Of the 242 companies which reported annual or half-year results in February, 30 per cent saw share price swings of 5 per cent or more on the day they revealed their figures.

David Schwartz, the stock market historian, was "astonished" by the size of the share price movements.

"This is quite an indictment of the analysts," he said: "Despite all the people watching these companies, there is still considerable potential for surprises in their earnings figures."

Glynwed seeks buyers for bulk metals business

By Andrew Edgecliffe-Johnson

Glynwed, the engineering group behind Aga cookers, has begun looking for buyers for its commodity metals businesses and will this week signal the start of an auction which could raise between £300m and £400m.

The two metals divisions - distribution and processing - account for half of Glynwed's sales and profits.

The company said yesterday that, although no large disposals are imminent, a range of strategic options has been under review, and it had reached "implementation mode" after testing the market for the commodity-focused parts of its metals portfolio.

Disposals are most likely in metal distribution, the division which buys stainless steel, aluminium and yellow metals in bulk and then sells them in smaller packages to the end-customer.

The division's sensitivity to fluctuations in metals prices knocked its profits from £21.6m to £12m between 1995 and 1996, on sales of £325m, leaving profit margins at just 3.7 per cent.

British Steel is the largest UK rival to Glynwed in this market, which includes several smaller, regional and specialist companies.

Metal processing, which

converts basic metal into different lengths and thicknesses, made £21.6m profit on £300m sales in 1996, but its European exports have suffered from weak demand and the strong pound.

Glynwed said yesterday that it would be "more open about its strategy" in future.

The company is also expected to give some news about progress in finding a successor to Gareth Davies, who is intending to step down as chairman this year.

Analysts at Credit Lyonnaise said two months ago that the disposal of the metal distribution business could leave Glynwed vulnerable to a bid.

More recently, Nick Cunningham of Salomon Smith Barney said Glynwed's 7 per cent yield suggested that a dividend cut was possible.

The dividend was providing little support for the share price he said, while consuming cash that might be better used for making acquisitions.

Glynwed's acquisition ambitions have been held back in the past by its slow profits growth and poor cash flow.

It is now looking for at least £100m of acquisitions.

In the past 18 months it has sold a clutch of non-core businesses, including Wednesbury Tube, the poorly-performing copper tubing group.

Dalgety, for example, led the FTSE 250 risers with a 17 per cent jump when it announced plans to sell Spillers petfood and its US distribution business, and to return £650m to long-suffering shareholders.

When such distortions are stripped out, clear themes emerge.

On balance, investors were pleasantly surprised by company results in February: 55 per cent of the companies' shares rose on the day of the results, and just 26 per cent fell.

Analysts may find further consolation in the fact that the remaining 19 per cent saw no share price movement.

The figures also help to explain why the FTSE 250 index has started to make up the ground it had lost to larger stocks.

The average FTSE 250 company's shares rose 2.8 per cent on the day of its figures, compared to a more modest 1.2 per cent advance

in the average FTSE 100 stock.

FTSE 250 companies had spent months in the doldrums because of fears about the twin impact of Asia and the strong pound on the many "mid-cap" exporters. Such concerns began to ease as the first results came in.

The difference between the two indices also reflects differences between sectors of the market. None of the 11 construction companies which reported last month - including Bryant Group and George Wimpey in the FTSE 250 - fell on the day of its results. The average daily gain was nearly 5 per cent.

The most consistent winners among small and mid-cap stocks were support services firms, which have the twin appeal of strong growth and minimal exposure to sterling. Two FTSE 250 members, Logica and Capita, jumped by 11 per cent and 10 per cent respectively when they announced results.

Smaller computer-related

stocks such as London Bridge Software, Diagonal and Admiral, rose by between seven and nine per cent on the day of their figures.

At the other end of the league table, four of the seven largest one-day falls were registered by small engineers, while drugs groups - ranging from the AIM-listed Oxford Biomedica to medium-sized organisations such as Medeva and Shire Pharmaceuticals - disappointed.

Not surprisingly, the sharpest price movements were registered by the smallest companies, whose shares tend to be the least liquid and most easily affected by small trades.

The top ten risers and fallers each included four AIM companies.

Three of the four top risers - Euro Sales Finance, Tadpole Technology and Bowes Leisure - have a market value of less than £15m, which sets into context share price rises of between 17 per cent and 40 per cent.

Of the ten worst results-day performers, those whose shares slid by between 8 per cent and 30 per cent on the day, just one is worth more than £50m.

The small-cap stocks fared better as the month progressed, however, while FTSE 100 stocks including Abbey National, General Accident and BG disappointed.

Mr Schwartz, whose has analysed market movements going back to 1919, spots another unusual feature of the results season movements. "February is not a good month for stock markets in general," he said.

Mondays in February are usually particularly bleak, with just a 38 per cent chance that the share prices will rise, compared to 62 per cent on other February days.

The top ten risers and fallers each included four AIM companies.

Last month was, perhaps, the exception that proves the rule: 63 per cent of the companies which reported on a Monday rose on the results, while just 29 per cent of those who chose Fridays ended up on the day.

NEWS DIGEST

PHARMACEUTICALS

SB says board united on Glaxo decision

SmithKline Beecham, the pharmaceuticals group, has tried to end speculation that its board was divided over the decision to end merger talks with Glaxo Wellcome.

"The facts are that the management team is united and the board is rock solid," the company said, in a statement which displayed its board's intention at reports of a split between non-executive directors and Jan Leszch, the chief executive.

"The board members were unanimous in their reasoning and decision not to proceed with a merger, and that position remains unchanged," the company said. "Any suggestion otherwise has no basis in truth." The company's position was supported by one institutional shareholder yesterday, who said that, when the two toured large shareholders to explain the collapse of the merger talks, the SmithKline Beecham directors appeared completely united.

"It was a full team, including Sir Peter Waters [non-executive chairman], Jan Leszch, Jean-Pierre Garnier [chief operating officer] and High Colium [finance director]," the shareholder said. "They were very well equipped, and had prepared notes demonstrating the way they believed the Glaxo Wellcome position had changed."

The investor also denied reports that shareholders including Mercury Asset Management, Prudential and Morgan Grenfell had established a committee to examine the failure of the merger or to press the companies to revive their talks. Andrew Edgecliffe-Johnson

PENSIONS

First client for SocGen Asset

SocGen Asset Management has attracted its first pension fund client in less than two months after Devonport Royal Dockyard severed its links with Gartnore, one of the UK's five largest pension fund managers.

Winning a £100m UK equity mandate for the new team - headed by Nicole Horlick, the former Morgan Grenfell fund manager who left in a storm of publicity last year, and John Richards - may surprise in an industry where mandates are awarded after long-term performance. However, pension funds have become increasingly disillusioned with the performance of the largest managers over the past year. One leading consultant said SocGen's win was "hardly surprising given the desperate desire for new managers at the moment".

Many pension funds have started to switch from large "balanced" funds, in which the manager has discretion to invest across asset classes and countries, to more specialist management. The decision by Devonport to relocate the £250m managed by Gartnore for the past 10 years echoes that trend. As well as SocGen about £70m has been awarded to Legal & General, the index tracking specialists, while a smaller portion has gone to Capital International, the US group, to invest in overseas equities.

Fidelity has been reappointed to a £250m balanced mandate by Devonport.

Gartnore, which has underperformed its peers overall for the past five years, announced a reorganisation of its investment teams last week with a greater separation between fund management, research and client service. It is also to offer a new type of balanced fund which combines index tracking with active management. Jane Martinson

BREWING

Ushers refinance debt

Ushers of Trowbridge has become the latest UK company to refinance its debt through a private placement in the US. The regional brewer is raising \$80m (£48m) to reduce its interest payments and extend its timetable for repayments.

The group's current £55m debt, of which £35m has been drawn, was due to repay between 1999 and 2001. The new unsecured debt - being placed with five institutional investors in the US - has a maturity of ten years, and is repayable in five equal instalments from 2004.

Martin Coles, finance director, said: "We are funding investment in our existing estate from cashflow, but this will provide additional funding for pub acquisitions."

Andrew Edgecliffe-Johnson

SERVICES

Sketchley to consider takeover

The board of Sketchley, the industrial textiles and utility maintenance group, is to meet today to discuss proposals for the sale of its dry cleaning business or a full-blown takeover. Despite more than six months of negotiations, no formal terms have yet been agreed with either Arthur Andersen's corporate finance division, which is representing a group interested in a full takeover, or with NatWest Equity Partners, which has discussed a bid for the dry cleaning division. Both groups are still in discussions with Sketchley. Whatever the outcome of today's board meeting, shareholders face a further wait before final terms can be agreed.

Their shares have fallen from 91p to 48p in the past year. The talks have been delayed by the need to ensure that the potential liability of the retail outlets' leases would not bounce back to Sketchley should the buyer run into financial problems. Andrew Edgecliffe-Johnson

MANUFACTURING

UK Safety recommends low bid

UK Safety, the industrial footwear and protective clothing group, has recommended a £1.01m cash offer from Skyfeast, a new company set up by Alchemy Investment Plan and a management buy-out team. The 24p per share offer represents a 67 per cent discount to the 71p closing price for UK Safety shares on March 19, the last dealing day before the offer. The shares fell 37 per cent after the announcement on Friday dropping 23p to close at 45p. John Newman, chief executive and one of the MBO team, said the offer was recommended "even though it looks like a difficult offer for shareholders" as the company was "struggling under a yoke of debt". Gearing had risen above 400 per cent, and debts of £11.6m against shareholders' funds of £2.7m were reduced to 50 per cent with Alchemy's £7.5m investment, and bank support will continue. Joan Gray

BIOTECHNOLOGY

Scotia £50m bond issue

Scotia, the UK biotechnology company, has raised £50m through a convertible bond issue - but only after institutional underwriters shareholders who took up 20.02 per cent of offering by the March 18 closing date. The remainder was placed with institutional investors. The company will use the money to help develop what it regards as its most promising projects: photodynamic therapy, a cancer treatment in which a drug sensitises tumours to light; and Olbra, a food ingredient that appears to reduce appetite.

Biotechnology companies rely on regular fundraising exercises - the bonds is expected to start on March 28. The bonds may be Scotia's shares closed on Friday at 285p, down 21p. The placing Govett Corporate Finance, and Robert Fleming, Daniel Green



Martin Callan of Waterfall at the Pool Shack, Victoria, central London, after potting his new acquisition

Pool hall owners pocket £14m in Radion disposal

By Andrew Edgecliffe-Johnson

The four owners of an Essex-based chain of pool halls will pocket £14m in cash and shares tomorrow, when they announce the sale of Radion to Waterfall Holdings, the AIM-listed leisure group.

Radion's operating directors, Henry Gover and Ivan Levene, will join the Waterfall board. Winnie Gover, Mr Gover's wife, will receive

and will narrow the gap with its largest listed rival, Euro-Pool Leisure.

Waterfall's chief executive, Martin Callan, said the deal would enhance its earnings; he is now applying for a full market listing.

Radion's operating directors, Henry Gover and Ivan Levene, will join the Waterfall board. Winnie Gover, Mr Gover's wife, will receive

£4m cash and more than 3.1m Waterfall shares, while Mr Levene, and his father, Anthony Levene, will share £4.4m in loan notes, £600,000 in cash and almost 2.2m shares.

Radion owns 14 "cue sports" clubs, six health clubs, four bowling alleys, two public houses and a nightclub. Its assets have been valued at £11.5m.

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CH Dino 50



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COMPANIES & FINANCE

STEEL AND ENGINEERING GERMAN GROUP HOPING TO MERGE WITH THYSSEN LIFTS PAY-OUT

Krupp more than doubles to DM437m

By Andrew Fisher in Frankfurt

Krupp, the German steel and engineering company negotiating a merger with Thyssen, doubled its profits last year and said shareholders would receive a sharply higher dividend.

The news that Krupp's net income rose 111 per cent from DM208m to DM437m (\$238.2m) came as Thyssen told shareholders its own profits' advance had continued in the current financial year to September 30, with a further gain expected for the full year.

Late on Friday, Thyssen announced Dieter Vogel would step down at the end of April as the group's chairman. After failing to win the top post in the merged Thyssen-Krupp group, Mr Vogel had been expected to retire later this year.

However, with several important elements of the merger still to be decided, some small Thyssen shareholders voiced concerns at the annual meeting last Friday about the likely valuation of the two companies ahead of the merger. They were concerned that Thyssen - much the bigger company - might be valued at less than its full weighting under pressure from Krupp.

Heinz Kriwet, head of Thyssen's supervisory board, said, however, that the Thyssen share of the merged group's assets was likely to be between 65 per cent and 68.3 per cent.

Mr Vogel, addressing his last Thyssen annual meeting as chairman, said the group's turnover had risen 24 per cent to DM13.8bn in the first five months of the 1997-98 year, with the new order inflow 25 per cent higher at DM19bn. Profits had grown much

faster than turnover. Last year, Thyssen's operating profits more than doubled from DM611m to DM1.46bn.

Krupp's operating profits last year - its financial year is the calendar year - jumped from DM336m to DM618m. In 1995, they were DM644m. The figures take into account an exceptional charge of DM127m in connection with the formation of Thyssen-Krupp Stahl.

Earnings per share increased from DM18 to DM26, and Krupp shareholders will receive a dividend of DM8, up from DM5.

Turnover edged ahead from DM24bn to DM25.1bn, even though Krupp's flat-rolled steel activities were transferred to Thyssen-Krupp Stahl last April.

Dieter Vogel: retiring earlier than expected Picture AP

Krupp, Mr Schulz will head the merged concern.

Since the valuation weighting will not be decided by auditors for several months, both companies said any discussion now was premature.

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EMERGING MARKETS FOREIGN LIQUIDITY HAS DRIVEN THE MANILA STOCK EXCHANGE UP 50% SINCE ITS JANUARY LOW

Philippines shrugs off Asian turmoil

By Justin Marozzi in Manila

To judge by the recent performance of the Philippines Stock Exchange, you would think the Asian crisis was long gone. Fuelled by foreign, particularly US, liquidity chasing Asian stocks, the market has soared 50 per cent from its January low. Last week alone it gained 4.8 per cent.

Given that the country is still faced with deep uncertainties two months before national elections determine the successor to President Fidel Ramos, the country's most successful leader, the market's buoyancy appears all the more remarkable. The knowledge, too, that the worst of the economic consequences of the regional crisis has yet to filter through, also makes some nervous.

But, says Alex Connor, head of research at Indosuez W.I. Carr in Manila, investors are defiantly showing interest in the market, which by comparison with most of its neighbours looks relatively healthy.

"Liquidity has been the main drive of recent gains."

she says, "particularly with US funds wanting to invest in Asia and seeing the Philippines as something of a safe haven. Indonesia looks awful and Manila, which has about the same size capitalisation as the Thai market, has been put on the map because everyone else is doing so badly. My feeling is that up to the election you'll continue to see some strength."

Investors have also taken heart from more positive news that emerged last Tuesday, when the central bank announced that the government and the International Monetary Fund had agreed a new, two-year precautionary arrangement worth \$1.6bn/\$1.8bn.

That package included encouraging gross national product growth targets of 3.4 per cent for 1998, 4.5 per cent in 1999 and 6 per cent in 2000. It also contained an agreement to curb inflation to 7.5-8.5 per cent this year and 6-7 per cent next.

Critically for the financial sector, measures designed to reform the banking sector - such as raising banks' capi-

tal to encourage rationalisation - were also announced. The IMF's Philippine package differs from those already agreed in Thailand, Indonesia and South Korea. Recognising there is no pressing need for refinancing, it makes the funds available only on a stand-by basis.

The bourse has also leapt at renewed corporate activity in the form of the 3.6bn pesos (\$94.6m) buy by Ayala Land, the country's flagship property group, of a 38 per cent stake in C&P Homes;

the low-cost homebuilder. The deal is the biggest such swap since the Asian turmoil began last July.

But some increasingly feel the market may be racing ahead of itself, even given the generally uncontested view of economists that for various reasons, the Philippines has emerged from the Asian crisis less battered than its neighbours.

Matthew Sutherland, head of research at Paribas Asia Equity, sees a more bearish outlook for the market, which is now trading on a

prospective price/earnings ratio, based on 1998 earnings, of 17 times.

"The market has bottomed out at 1,600 points, has had a sensible bounce, but we feel there is lots of bad news ahead," he says. "Inflation will start to filter through, elections are coming up, Indonesia looks awful, and we still haven't had any big bankruptcies in Manila. I think you'll start to see some profit-taking."

Mr Sutherland points to an emerging debt problem of about 13bn pesos at National Steel Corporation as one example of the shape of things to come.

There should be sufficient question marks on the short-term political and economic landscape in the Philippines to make investors cautious about joining a stampede into the market. So far, liquidity has ruled the day and Manila has, against most predictions, enjoyed a bullish start to the Year of the Tiger. But, as both Mr Sutherland and Ms Connor agree, on fundamental valuations little looks cheap at these levels.

"This vote of confidence in our economy from four world-class operators in the market strikingly contradicts the pessimistic view of the credit-rating agencies," Mr Maharaj said.

"Few parastatals in this country have so firmly grasped the challenges of open markets and global competition as the airports company has done."

ADR is 89 per cent owned by ADR, with the rest held by ABN Amro.

Barry Cosgrove, the finance director of Powerscreen International, attended a meeting to discuss pricing problems at the Northern Irish engineer's Matbro subsidiary more than two weeks before Powerscreen issued shares without announcing the difficulties.

Mr Cosgrove attended the meeting at Matbro's Tetbury, Gloucestershire headquarters on December 1, more than two weeks before Jim Powerscreen shares were issued on December 18. It was nearly another two months before the pricing problems and other malpractices - for which Powerscreen is taking a £45.7m (\$77.7m) provision - were announced.

The finance director's presence at the meeting would suggest strongly Powerscreen's main board was aware there were serious difficulties at the subsidiary before the share placing.

At the sales meeting, staff say they were told by James Nicholson-Smith, the new managing director of Matbro, that their prices were unacceptably low. They were told to return to customers and cancel prices for existing orders. Many of the sales staff and the then sales director, Brendan McGrath, have since left.

Mr Cosgrove's presence was confirmed by a sales representative who was present at the meeting and by a senior member of staff.

The sales person said: "He [Cosgrove] had never attended a [Matbro] sales meeting before."

Powerscreen announced the losses on January 27, saying it would take a charge of £46.7m against the present financial year's profits to cover losses at Matbro from mispricing, problems with warranty payment and unauthorised discounting of bills of exchange. Matbro makes specialist tractors.

Powerscreen's share price collapsed on news of the losses. The shares were 53p on January 26. They closed at 20p on Friday.

Powerscreen discussed unit's pricing problems

By Robert Wright

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Rolls-Royce attracts third German group

By John Griffiths

A third German party other than BMW and the Volkswagen group is interested in acquiring Rolls-Royce Motor Cars and is expected to put in a bid through intermediaries within 10 days, insiders close to the sale said at the weekend.

They added that there were "more than three but less than six" groups regarded as serious contenders to buy the Crewe-based luxury carmaker, put on sale by its parent Vickers, the industrial group, through advisers Lazard Brothers late last year.

Neither Vickers nor Lazard would identify the financial institution understood to have made the approach on behalf of the third German concern. The disclosure will inevitably raise speculation that Mercedes-Benz, BMW's German

arch-rival, has had a change of heart and may have decided to pursue the UK carmaker after all.

However, this would be directly contrary to a categorical declaration by Jürgen Shrempp, Mercedes-Benz chairman, at the Geneva motor show less than a month ago that his company would not seek to buy the British concern.

Three years ago it believed it had reached agreement with Peter Ward, then Rolls-Royce chief executive, and his board that Mercedes-Benz would supply the engines and other technological input for the generation of Rolls-Royce and Bentley, starting with the Silver Seraph unveiled at Geneva. However, Vickers awarded the deal to BMW over Mr Ward's head, prompting his resignation.

The sale has become controversial, with Bernd Pischetsrieder, BMW chairman, criticising the way it was handled and the process taking longer than expected.

With two other groups also known to be planning to make bids, insiders envisage a "Dutch auction" starting from mid-April.

A management buy-in com-

pany led by Kevin Morley, a former senior Rover Group executive, is poised to bid, as is a group of enthusiasts calling itself a "customer buy-out" consortium, led by barrister Anthony Shrimpton.

Although both claim to be adequately funded, they will have difficulty convincing Vickers and Rolls-Royce Aerospace - which holds the rights to the use of the Rolls-Royce name - that they have adequate resources to fund a viable long-term future for the company.

NEWS DIGEST

PRIVATISATION

Western banks shun LOT sale after dispute on laws

Several big western investment banks have shunned a tender for the position of privatisation adviser to the sale of Poland's state-owned LOT airline in wake of a dispute over the country's public procurement laws. The banks include Merrill Lynch and Goldman Sachs, which bid in Poland's last controversial tender for an advisor to the sale of Telekomunikacja Polska, the national telecommunications operator. The two US banks and SBC Warburg, which also decided not to bid for the LOT contract, had sought to advise on the sale of the Polish airline in a series of tenders dating back to 1990. These founders when previous governments decided to shelve privatisation.

Nevertheless, nine western-led banking consortia including ING Barings and Dresdner Kleinwort Benson participated in the tender in spite of doubts over the procurement laws, originally crafted to expose potentially fraudulent local bidders. Polish officials in charge of the tendering process admit the laws need to be changed to accommodate western banks. Many investment banks found themselves disqualified for advisory work on the sale of the Peles SA bank and TPSA on technicalities.

Banks which have bid for LOT are Chase Manhattan, which has teamed up with Donaldson Lufkin and Jenrette, and the local bank Handlowy. J.P. Morgan is bidding with the Central European Trust consulting company. Also represented are Société Générale with Creditanstalt. Other groups are headed by HSBC, ABN Amro and the Boston Consulting Group. Chris Bobinski, Warsaw

HUNGARY

Mol shares jump

Shares in Hungarian oil and gas company Mol rose strongly on the Budapest Stock Exchange on Friday to close at a record high of Ft8,800, up Ft380, or 5.9 per cent overnight, and valuing the company at some \$3.2bn. The jump followed the close of the third international offering of Mol on Thursday, when an 11 per cent stake was on offer. The share price in the international offer was fixed at Ft8,330.

Friday's close capped a remarkable month for Mol, the stock rising almost 30 per cent from February 21. Local analysts were surprised when Hungarian privatisation company APV and global co-ordinators Dresdner Kleinwort Benson and CAIB Investment Bank announced a maximum share price of Ft8,100 for the domestic retail offering on March 6, at a time when the market price was only Ft 5,700.

With the retail domestic offering subscribed five times, APV announced it would transfer 1.5 per cent of the stake available in the international offer to the domestic tranche, giving domestic retail investors a total 2.5 per cent stake. At the same time, 1 per cent green shoe is expected to be called for the heavily subscribed international offering, leaving a total 7.72 per cent stake available for institutional investors. The offer is expected to raise over \$300m for APV. Kester Eddy, Budapest

CARMAKERS

VW sets price

Volkswagen, the German car group, has set a price of DM1,010 a share for its forthcoming rights issue, a big discount on its closing level of DM1,450 a share on Friday. The price is the same as that announced last October, when the rights issue was first unveiled; under German rules it could not be raised.

Shareholders are being offered one new share for every 13 held in the issue, which is expected to raise DM300 (\$1.6bn).

Vincent Boland

RESULTS

Israel Chemicals rises 46%

Israel Chemicals, the export-driven chemicals group, yesterday said net profits jumped 46 per cent last year, fuelled by a shift towards more profitable products. But losses at the group's magnesium plant, a joint venture between Dead Sea Works, a subsidiary of ICL, and Volkswagen of Germany, kept profits flat during the fourth quarter.

Net profit climbed 46 per cent from \$69.4m to \$101.4m in 1997. Revenues inched up 3 per cent from \$1,636bn to \$1,685bn. Avi Machlis, Tel Aviv

OIL ALLIANCE

US/Russian deal

Schlumberger, the international oil services group, is to unveil a strategic alliance tomorrow with Yukos, Russia's biggest oil company, under which the latter will outsource some of its Russian oilfield services operations. The deal is likely to give Schlumberger a substantial stake in developing Russia's vast oil reserves. The company said on Friday that the move was a "landmark strategic alliance", but gave no further details.

Mr Baird said last September that Schlumberger was planning a significant push into Russia and predicted that the country could eventually rival the US as its biggest business area. It planned to develop manufacturing and engineering operations but the most advanced technology would be imported. Mr Baird also said there would be no joint equity companies. Vincent Boland

PORTUGAL

Paper and pulp in shake-up

Portugal is embarking on a large-scale restructuring of the country's pulp and paper sector that will involve the sale of 10.5 per cent of the capital of Soporel. Under the plan, the state is to reduce its holding in Soporel, Portugal's second largest pulp and paper maker, from 50.5 per cent to 40 per cent. Arjo Wiggins, the Anglo-French paper group, is to cut its stake from 43 per cent to 40 per cent. This is expected to be achieved by the sale of Soporel stock to non-strategic institutional investors. A new holding company to co-ordinate state interests in one of Portugal's most important industrial sectors is also to be set up. Peter Wiles, Lisbon

By Vincent Boland

A rare international equity offering from southern Africa was completed last week when a stake in the biggest company in Malawi was sold to domestic and foreign investors in a private placing.

The shares were sold by Press Trust, a public trust in Malawi. Following the placing, the trust's stake in Press Corp was 71 per cent. Apart from Old Mutual Malawi, which already owned 7 per cent of Press Corp, most of the other new investors were UK institutions.

The Malawi stock market is capitalised at just \$100m and is the smallest in southern Africa.

The \$12.5m transaction saw a 22 per cent stake in Press Corporation, a conglomerate with interests in trading, food, brewing, property, tobacco, banking and insurance, sold to investors including Old Mutual Malawi, a unit of South African life insurance group.

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GERMAN GROUP LINKED WITH RANDOM HOUSE

Bertelsmann silent on talk of US buy

By Frederick Stidemann in Berlin and Ralph Atkins in Bonn

Bertelsmann, the world's third biggest media company, said yesterday it would today be making an "important" strategic announcement, but the German group declined to comment on speculation it was about to fulfil its ambition of acquiring a US publishing house.

In a statement, Bertelsmann described a German media report that it was about to buy Random House, of the US, was "one of many" speculative ideas that had been circulated ahead of a press conference in Munich today. But it said work was continuing ahead of the announcement and nothing would be said until this afternoon. The conference will take place shortly after the start of business in New York.

Similarly, Bertelsmann refused to comment on suggestions it might announce a co-operation agreement with Générale des Eaux, the French conglomerate that this month absorbed Havas, the French media company. Another possibility is that Bertelsmann is about to revise plans for a German digital pay-television venture in conjunction with the Kirch media group. The venture has run into problems winning clearance from

Monument poised for deal to export oil via Iran

By Virginia Marsh

European Union competition authorities.

Bertelsmann is based in Gütersloh, in north Germany, but many of its European music, publishing and entertainment businesses are based in Munich, in the south.

The group has made no secret of its wish to acquire a US publishing house to add to its existing book publishing activities in the US, which include Doubleday and Bantam.

Other US companies suggested as possible Bertelsmann takeover targets have included McGraw-Hill, the US business and educational publisher, and Houghton Mifflin, the general trade publisher.

A significant acquisition would mark another stage in the privately owned Bertelsmann group's evolution from a business based on book clubs and general publishing into a wide-ranging international entertainment and media concern.

Thomas Middelhoff, board member responsible for multimedia activities who was last summer named as chief executive designate, is currently working for Bertelsmann in the US. He will succeed Mark Wössner, who will make today's announcement.

Bertelsmann has turnover of about DM25bn (\$13.7bn) a year.

France to share risk on China guarantees

By Andrew Jack in Paris

The French government has signed a pioneering \$100m reinsurance contract with commercial insurers to share the risk on its long-term guarantees given to businesses investing in China.

Sovereign Risk Insurance, based in Bermuda, which is acting as an agent for XL Insurance Company and Ace Company, along with Scor, the quoted French reinsurer, will form a pool to share some of the political risk insurance underwritten by the French government over a 10-year period.

Coface, which will retain 20 per cent of the risk, is a French export insurance group which manages long-term cover on behalf of the French state, but leaves the state to reimburse any claims. It is held by private sector companies and will soon be controlled by Scor.

Officials said the move was a first in continental Europe, although precedents had been established for similar reinsurance on long-term political risk cover in the US.

Coface officials stressed

that the action did not relate to concern by the French government about the political or economic situation in China, and that the deal had been under negotiation since last summer, ahead of the Asian crisis.

They said it reflected instead a new policy by the French government to share the risk on its long-term contracts in the wake of substantial cumulated deficits during the 1990s.

The move also comes at a time of significant surplus capacity in the reinsurance market, which made the cost of the operation attractive, and after the growth in the use of such techniques to underwrite long-term cover.

Coface has already begun adopting a series of more sophisticated approaches to handling the French government's cover, including a securitisation of claims held on Poland.

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Officials

COMPANIES & FINANCE

Metromail talks to ABI over GUS bid

By William Lewis in New York
and Andrew Eignor-Johnson in London

Metromail, the US database company, is starting talks with American Business Information, the Omaha-based business information group that last week launched a hostile takeover in an attempt to snatch the company away from Great Universal Stores, the UK mail order house.

In a statement issued on Friday, Metromail's board said it had authorised management and advisers to begin discussions with ABI "to better understand the offer, including financing conditions".

On Wednesday, ABI announced an \$85m bid for Metromail, toppling an agreed offer by GUS. ABI also filed a legal action in

the Delaware Chancery Court seeking to halt the \$85m GUS-Metromail agreement. The law suit is set to be heard on March 27.

It states the GUS-Metromail agreement contains a number of provisions "improper in an auction process" including a \$15m break-up fee payable to GUS if the deal fails. The lawsuit also details a complaint about share option grants to Metromail's management during the auction.

Metromail's statement said ABI's \$33 a share cash offer was "subject to potential modest upward adjustments if it succeeds in invalidating the termination fee in the company's merger agreement with GUS and certain stock options".

Metromail also said the financing commitments ABI has provided were subject to

conditions, including due diligence.

Barton Faber, Metromail's chairman, president and chief executive officer, said Metromail's board of directors "has acted appropriately at all times and we take great exception to the charges". Mr Faber's comments represent the first specific denial of the allegations in the GUS' law suit issued by Metromail.

In London, GUS said it would not comment on news of the talks between Metromail and ABI, but sources close to the bidding process said it was not expected to respond with any imminent increase.

GUS bought Direct Marketing Technology last year, but believes its offer would result in fewer jobs lost than a bid from ABI, which declined to comment.

Moody's cuts LTCB rating to near 'junk'

By Gillian Tett in Tokyo

Moody's, the US credit rating agency, has cut the rating for Japan's Long Term Credit Bank to one level above "junk bond" status, because of concern about its capital strength.

It leaves the group with one of the weakest ratings among large Japanese banks. LTCB's shares fell Y13 to close at Y24 on Friday after the announcement.

LTCB's senior debt rating has been lowered to Ba3, from Ba2, one level above speculative grade, Moody's said. The financial strength rating has also been cut from E plus, to E, the lowest level.

The position of LTCB has attracted particular attention in Japan recently because it concluded a path-breaking alliance with Swiss Bank Corporation last year. The two agreed to set up investment banking, asset management and private banking joint ventures. This represents the most fully fledged alliance concluded between a Japanese and non-Japanese bank so far.

Earlier this year LTCB's share price fell sharply on speculation that the alliances might be unravelling after SBC entered a separate merger with Union Bank of Switzerland.

However, last week SBC confirmed the joint ventures

would go ahead this summer as a three-way alliance between SBC, UBS and LTCB. LTCB and SBC also plan to take a 1 per cent equity stake in each other in the next three weeks.

Moody's acknowledged the alliance with SBC would be a "positive development" for LTCB. However, it argued the earnings contribution from the joint venture would not be enough to offset the "continued secular erosion of its core banking franchise under intensifying competition". And it expressed doubts about whether the bank's capital base could cope with more bad loans from south-east Asia and Japan.

In a year of growth, Tractebel has not affected its strategy. He said changes in Tractebel's statutes to preserve its autonomy from its French ultimate parent - which

holds 50.3 per cent of Tractebel via the Belgian holding company Société Générale de Belgique - had worked as intended.

But analysts believe Tractebel's long-term wish is to merge with Electrabel, the electricity monopoly which is Belgium's biggest company, by market capitalisation and of which Tractebel owns 39 per cent.

Mr Bodson did not rule out a merger, suggesting such an idea was "in the air".

A dividend up from BFr77 to BFr80.75 is proposed.

Pro-forma profits increased from BFr15.1bn to BFr16.4bn (\$433m), fuelled by a more than four-fold increase in profits from the group's international electricity and gas business.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Texas Utilities (US)	Energy Group (UK)	Power	\$7.43bn	Market raids
Ispe (UK)	Inland Steel (US)	Steel	\$1.45bn	Consolidation
GUS (UK)	Metromail (US)	Business svcs	\$831bn	Problems emerge
Associates First Capital (US)	DIC Finance (Japan)	Financial svcs	\$614m	Deal with Daiei
LDV (UK)/Daewoo (S Kor) JV	Commercial vehicles		\$267m	New LDV line
ABN Amro (Nlnds)	Bank of Asia (Tha)	Banking	\$189m	Innovative pricing
Sithe Energies (US)	Cogenerations (Tha)	Power	\$100m	Trend setter
Thermo Electron (US)	Unit of Gresley (UK)	Monitoring	\$74m	Smiths sells
IGT (US)	Barcrest (UK)	Leisure	\$70m	Bass disposal
Dunice House (Ireland)	Ewart (UK)	Property	\$43m	Victory claimed

Strang recruited by Bear Stearns

By William Lewis

Bear Stearns, the US securities firm, has recruited two of the City of London's best known international merger and acquisitions specialists to help spearhead its European investment banking expansion plans.

Richard Strang, formerly a

director at Deutsche Morgan

Grenfell, the German investment

bank, is joining Bear

Stearns as a senior managing

director in its investment

banking division.

He will be based in the US

firm's London office and will

specialise in advising US clients

on European M&A deals.

Mr Strang left DMG

last summer following concerns

about the German bank's ambitions to develop

global investment banking

operations.

Analysts said on Friday

Mr Strang's decisions to

leave DMG and join Bear

Stearns, a middle ranking

Wall Street investment

bank, is indicative of trends

in global investment

banking.

Deutsche is one of several

European banks to be imple-

menting a shake up of its

investment banking division,

including staff cuts, while

Bear Stearns is planning to

increase its current London

staff of 450 by more than

half over the next two years.

It is a recognition of the

fact that the powerhouses of

investment banking in the

future are going to be those

firms that have a strong US

presence," Mr Strang said in an interview. He declined to comment on his reasons for leaving DMG.

During a 20 year career

at DMG, Mr Strang advised a

number of US companies on

M&A and financing deals

including AT&T, the tele-

communications giant, John-

son & Johnson, Eastman

Chemical, Colgate Palmolive

and Dana Corporation.

At Bear Stearns, Mr

Strang intends to focus

mainly on telecoms compa-

nies, including the provi-

sion of US financing to

European telecoms compa-

nies. He will also advise

clients on M&A and

financing deals.

Richard Strang's arrival

at Bear Stearns is the latest

sign of the firm's commit-

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CURRENCIES & MONEY

Punt sets precedent

By Simon Kuper

his bank's views on Emu convergence. The writer of comment and data could include hints that some countries need to revalue before the euro is launched next year.

The reason the market thinks revaluations could happen is that the economies of most countries planning to join Emu are growing faster than that of Germany. This is true of the Netherlands, Spain and Portugal as well as Finland and Ireland. But after the euro's launch, these countries will have to have the same interest rates as Germany, which could spark inflation. A stronger currency could counteract the risk.

This week will test belief in revaluation. On Wednesday the European Commission and European Monetary Institute will each publish reports on likely Emu founder members. Two days later Hans Tietmeyer, Bundesbank president, will tell the German cabinet about the German economy on Friday.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 20	BF	DK	FF	DM	£	L	R	Mr	Fr	PL	SEK	SEK	E	CS	S	Y	Ecu
Belgium (BF)	100	16.46	16.25	4,948	1,930	4768	5,464	20.13	495.9	410.8	21.09	3,952	3,748	2,543	347.7	2,441	
Denmark (DK)	54.11	8.27	8.02	1,200	475	2,000	2,072	10.21	1,000	1,000	10.21	1,000	1,000	1,000	1,000	1,000	
France (FF)	51.54	11.37	10	2,584	1	3,959	983.5	1.17	4,151	102.3	84.74	4,349	0.617	0.328	0.773	545.6	
Germany (DM)	3,812	1.25	1.25	1.25	1.25	1.25	1.25	12.39	305.2	305.2	1.25	3,812	3,812	3,812	3,812	3,812	
Ireland (E)	51.80	0.574	0.417	2,511	1	2,470	2,831	10.43	70.43	259.9	21.92	2,052	0.623	1,942	1,369	1,264	
Italy (L)	2,097	0.386	0.341	0.102	0.400	100	0.115	0.422	10.40	81.91	7.35	3,883	0.76	0.659	0.553	0.725	
Netherlands (R)	18.30	3,382	2,974	0.867	0.533	0.725	1	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	
Norway (Mr)	49.65	8.183	8.074	2,408	0.959	2,369	2,715	1.02	204.1	204.1	10.48	1,959	1,789	1,653	1,313	1,213	
Portugal (P)	22.10	0.355	0.303	0.100	0.400	96.1	1.00	0.470	11.61	1.25	0.470	1.00	0.470	0.470	0.470	0.470	
Spain (Pls)	24.24	4,498	4,065	0.955	0.725	0.725	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Sweden (Skv)	47.43	8.765	7.706	2,259	0.616	2,281	2,592	8.445	235.2	194.8	10	1.07	0.753	1.778	1.253	1.158	
Switzerland (SF)	25.24	4,655	4,101	1.224	0.487	1,204	1,378	5.080	12.52	1.037	1	4,041	0.946	0.697	87.01	1,816	
UK (UK)	62.97	20.33	20.53	1,203	1,203	1,203	1,203	12.67	51.23	143.9	13.26	1,203	1,203	1,203	1,203	1,203	
Canada (C)	26.68	4,530	4,335	1,253	0.515	1,252	1,458	5.369	132.3	105.6	5.625	1,057	1,044	1,044	1,044	1,044	
USA (D)	37.84	0.993	0.848	1,824	0.730	1,804	2,068	7.615	187.7	155.4	7.499	0.601	1,418	1	130.4	0.924	
Japan (Y)	29.01	4.714	4,108	1,824	1,824	1,824	1,824	5.638	118.6	61.7	1,149	0.641	1,087	1	107	1,020	
Ecu (Ecu)	40.97	7.572	0.857	1,988	0.791	1,954	2,239	0.245	202.2	188.3	0.638	0.851	1,538	1,003	1,012	1,012	

* For Mar 10. Boldface denotes in the Pound Spot table those only the last three decimal places. Sterling rates calculated by the Bank of England. Ecu average 1992 = 100. Index related 1995. The exchange rates printed in bold are available on the internet at <http://www.bankofengland.co.uk>** For Mar 10. Boldface denotes in the Dollar Spot table those only the last three decimal places. Sterling rates calculated by the Bank of England. Ecu average 1992 = 100. Index related 1995. The exchange rates printed in bold are available on the internet at <http://www.bankofengland.co.uk>

POUND SPOT FORWARD AGAINST THE POUND

Mar 20	Closing mid-point	Change on day	Mid/spot spread	Day's mid-high	Day's mid-low	One month	Three months	One year	5/4/98	Bank of Eng. Big. Int.
Europe										
Austria	62.7	-0.0288	62.7 - 62	62.7	21,097	21,405	21,404	4.0	21,267	19 20,740.8 34 102.3
Belgium	52,570.0	-0.0152	52.5 - 52	52.5	2,995.5	2,710.0	2,710.0	3.9	52,576.0	34 60,942.3 34 101.5
Denmark	51.52	-0.0102	51.5 - 408	51.5	11,844.5	11,820.0	11,817.7	3.7	51,523.0	34 11,275.0 34 101.7
Finland	59.0	-0.0117	59.0 - 518	59.0	8,252.0	8,224.0	8,224.0	4.5	51,572.0	34 8,205.0 34 101.7
France	57.0	-0.0037	57.0 - 269	57.0	10,190.0	10,197.5	10,197.5	4.0	51,583.0	34 10,197.5 34 101.7
Germany	51.82	-0.0037	51.8 - 517	51.8	3,062.0	3,062.0	3,062.0	4.0	51,593.0	34 3,062.0 34 101.7
Ireland	50.0	-0.0037	50.0 - 172	50.0	3,062.0	3,062.0	3,062.0	4.0	51,603.0	34 3,062.0 34 101.7
Italy	51.20	-0.0037	51.2 - 172	51.2	1,210.0	1,210.0	1,210.0	4.0	51,613.0	34 1,210.0 34 101.7
Portugal	51.0	-0.0037	51.0 - 172	51.0	1,210.0	1,210.0	1,210.0	4.0	51,623.0	34 1,210.0 34 101.7
Spain	51.20	-0.0037	51.2 - 172	51.2	1,210.0	1,210.0	1,210.0	4.0	51,633.0	34 1,210.0 34 101.7
Sweden	52.77	-0.0037	52.7 - 677	52.7	13,244.0	13,244.0	13,244.0	4.0	51,643.0	34 13,244.0 34 101.7
Switzerland	52.64	-0.0037	52.6 - 858	52.6	2,657.0	2,657.0	2,657.0	4.0	51,653.0	34 2,657.0 34 101.7
UK	52.70	-0.0037	52.7 - 858	52.7	2,657.0	2,657.0	2,657.0	4.0	51,663.0	34 2,657.0 34 101.7
EU	52.70	-0.0037	52.7 - 858	52.7	2,657.0	2,657.0	2,657.0	4.0	51,673.0	34 2,657.0 34 101.7
Other	52.70	-0.0037	52.7 - 858	52.7	2,657.0	2,657.0	2,657.0	4.0	51,683.0	34 2,657.0 34 101.7

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 20	Closing mid-point	Change on day	Mid/spot spread	Day's mid-high	Day's mid-low	One month	Three months	One year	5/4/98	AP Margin Int.
Europe										
Austria	52.044	-0.0044	51.0 - 673	51.0	12,922.0	12,820.0	12,820.0	2.2	12,923.0	21 12,820.0 21 101.5
Belgium	57.870	-0.137	51.0 - 430	51.0	37,070.0	37,050.0	37,050.0	2.0	37,080.0	21 37,050.0 21 101.5
Denmark	50.025	-0.0025	50.0 - 500	50.0	7,020.0	2,005.0	2,005.0	1.8	7,020.0	21 500.0 21 101.5
Finland	53.561	-0.0173	52.0 - 542	52.0	1,040.0	1,040.0	1,040.0	1.8	1,040.0	21 104.0 21 101.5
France	57.140	-0.0123	47.0 - 480	47.0	1,040.0	1,040.0	1,040.0			

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Category	Group	Region	Rating	Price	Yield	1d	1w	1m	1y	2y	3y	5y	10y	15y	18y	20y	25y	30y	35y	40y	45y	50y	55y	60y	65y	70y	75y	80y	85y	90y	95y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	02y	03y	04y	05y	06y	07y	08y	09y	10y	11y	12y	13y	14y	15y	16y	17y	18y	19y	20y	21y	22y	23y	24y	25y	26y	27y	28y	29y	30y	31y	32y	33y	34y	35y	36y	37y	38y	39y	40y	41y	42y	43y	44y	45y	46y	47y	48y	49y	50y	51y	52y	53y	54y	55y	56y	57y	58y	59y	60y	61y	62y	63y	64y	65y	66y	67y	68y	69y	70y	71y	72y	73y	74y	75y	76y	77y	78y	79y	80y	81y	82y	83y	84y	85y	86y	87y	88y	89y	90y	91y	92y	93y	94y	95y	96y	97y	98y	99y	00y	01y	

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WORLD STOCK MARKETS

EUROPE												ASIA PACIFIC												AMERICAS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
AUSTRALIA (Mar 20 / Sch)			Croatia			Cyprus			Denmark			Estonia			Finland			Hungary			Iceland			Ireland			Italy			Latvia			Lithuania			Malta			Netherlands			Norway			Portugal			Romania			Slovenia			Spain			Sweden			Switzerland			Turkey			Ukraine			United Kingdom			United States																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
Aut 367	-1.55	375	161	1.4	5.8	Aut 401	-3.52	421	161	2.4	22.3	Aut 796	-1.5	1,050	538	2.6	25.5	Aut 801	-1.5	1,050	538	2.6	25.5	Aut 802	-1.5	1,050	538	2.6	25.5	Aut 803	-1.5	1,050	538	2.6	25.5	Aut 804	-1.5	1,050	538	2.6	25.5	Aut 805	-1.5	1,050	538	2.6	25.5	Aut 806	-1.5	1,050	538	2.6	25.5	Aut 807	-1.5	1,050	538	2.6	25.5	Aut 808	-1.5	1,050	538	2.6	25.5	Aut 809	-1.5	1,050	538	2.6	25.5	Aut 810	-1.5	1,050	538	2.6	25.5	Aut 811	-1.5	1,050	538	2.6	25.5	Aut 812	-1.5	1,050	538	2.6	25.5	Aut 813	-1.5	1,050	538	2.6	25.5	Aut 814	-1.5	1,050	538	2.6	25.5	Aut 815	-1.5	1,050	538	2.6	25.5	Aut 816	-1.5	1,050	538	2.6	25.5	Aut 817	-1.5	1,050	538	2.6	25.5	Aut 818	-1.5	1,050	538	2.6	25.5	Aut 819	-1.5	1,050	538	2.6	25.5	Aut 820	-1.5	1,050	538	2.6	25.5	Aut 821	-1.5	1,050	538	2.6	25.5	Aut 822	-1.5	1,050	538	2.6	25.5	Aut 823	-1.5	1,050	538	2.6	25.5	Aut 824	-1.5	1,050	538	2.6	25.5	Aut 825	-1.5	1,050	538	2.6	25.5	Aut 826	-1.5	1,050	538	2.6	25.5	Aut 827	-1.5	1,050	538	2.6	25.5	Aut 828	-1.5	1,050	538	2.6	25.5	Aut 829	-1.5	1,050	538	2.6	25.5	Aut 830	-1.5	1,050	538	2.6	25.5	Aut 831	-1.5	1,050	538	2.6	25.5	Aut 832	-1.5	1,050	538	2.6	25.5	Aut 833	-1.5	1,050	538	2.6	25.5	Aut 834	-1.5	1,050	538	2.6	25.5	Aut 835	-1.5	1,050	538	2.6	25.5	Aut 836	-1.5	1,050	538	2.6	25.5	Aut 837	-1.5	1,050	538	2.6	25.5	Aut 838	-1.5	1,050	538	2.6	25.5	Aut 839	-1.5	1,050	538	2.6	25.5	Aut 840	-1.5	1,050	538	2.6	25.5	Aut 841	-1.5	1,050	538	2.6	25.5	Aut 842	-1.5	1,050	538	2.6	25.5	Aut 843	-1.5	1,050	538	2.6	25.5	Aut 844	-1.5	1,050	538	2.6	25.5	Aut 845	-1.5	1,050	538	2.6	25.5	Aut 846	-1.5	1,050	538	2.6	25.5	Aut 847	-1.5	1,050	538	2.6	25.5	Aut 848	-1.5	1,050	538	2.6	25.5	Aut 849	-1.5	1,050	538	2.6	25.5	Aut 850	-1.5	1,050	538	2.6	25.5	Aut 851	-1.5	1,050	538	2.6	25.5	Aut 852	-1.5	1,050	538	2.6	25.5	Aut 853	-1.5	1,050	538	2.6	25.5	Aut 854	-1.5	1,050	538	2.6	25.5	Aut 855	-1.5	1,050	538	2.6	25.5	Aut 856	-1.5	1,050	538	2.6	25.5	Aut 857	-1.5	1,050	538	2.6	25.5	Aut 858	-1.5	1,050	538	2.6	25.5	Aut 859	-1.5	1,050	538	2.6	25.5	Aut 860	-1.5	1,050	538	2.6	25.5	Aut 861	-1.5	1,050	538	2.6	25.5	Aut 862	-1.5	1,050	538	2.6	25.5	Aut 863	-1.5	1,050	538	2.6	25.5	Aut 864	-1.5	1,050	538	2.6	25.5	Aut 865	-1.5	1,050	538	2.6	25.5	Aut 866	-1.5	1,050	538	2.6	25.5	Aut 867	-1.5	1,050	538	2.6	25.5	Aut 868	-1.5	1,050	538	2.6	25.5	Aut 869	-1.5	1,050	538	2.6	25.5	Aut 870	-1.5	1,050	538	2.6	25.5	Aut 871	-1.5	1,050	538	2.6	25.5	Aut 872	-1.5	1,050	538	2.6	25.5	Aut 873	-1.5	1,050	538	2.6	25.5	Aut 874	-1.5	1,050	538	2.6	25.5	Aut 875	-1.5	1,050	538	2.6	25.5	Aut 876	-1.5	1,050	538	2.6	25.5	Aut 877	-1.5	1,050	538	2.6	25.5	Aut 878	-1.5	1,050	538	2.6	25.5	Aut 879	-1.5	1,050	538	2.6	25.5	Aut 880	-1.5	1,050	538	2.6	25.5	Aut 881	-1.5	1,050	538	2.6	25.5	Aut 882	-1.5	1,050	538	2.6	25.5	Aut 883	-1.5	1,050	538	2.6	25.5	Aut 884	-1.5	1,050	538	2.6	25.5	Aut 885	-1.5	1,050	538	2.6	25.5	Aut 886	-1.5	1,050	538	2.6	25.5	Aut 887	-1.5	1,050	538	2.6	25.5	Aut 888	-1.5	1,050	538	2.6	25.5	Aut 889	-1.5	1,050	538	2.6	25.5	Aut 890	-1.5	1,050	538	2.6	25.5	Aut 891	-1.5	1,050	538	2.6	25.5	Aut 892	-1.5	1,050	538	2.6	25.5	Aut 893	-1.5	1,050	538	2.6	25.5	Aut 894	-1.5	1,050	538	2.6	25.5	Aut 895	-1.5	1,050	538	2.6	25.5	Aut 896	-1.5	1,050	538	2.6	25.5	Aut 897	-1.5	1,050	538	2.6	25.5	Aut 898	-1.5	1,050	538	2.6	25.5	Aut 899	-1.5	1,050	538	2.6	25.5	Aut 900	-1.5	1,050	538	2.6	25.5	Aut 901	-1.5	1,050	538	2.6	25.5	Aut 902	-1.5	1,050	538	2.6	25.5	Aut 903	-1.5	1,050	538	2.6	25.5	Aut 904	-1.5	1,050	538	2.6	25.5	Aut 905	-1.5	1,050	538	2.6	25.5	Aut 906	-1.5	1,050	538	2.6	25.5	Aut 907	-1.5	1,050	538	2.6	25.5	Aut 908	-1.5	1,050	538	2.6	25.5	Aut 909	-1.5	1,050	538	2.6	25.5	Aut 910	-1.5	1,050	538	2.6	25.5	Aut 911	-1.5	1,050	538	2.6	25.5	Aut 912	-1.5	1,050	538	2.6	25.5	Aut 913	-1.5	1,050	538	2.6	25.5	Aut 914	-1.5	1,050	538	2.6</td

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS

Figures in parentheses show number of lines of stock	US Dollar Index	Yen Index 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local currencies 31/12/97	% chg from 31/12/97	DM/ Yield	DM Index	Yen Index	DM Index	Currency Index	52 week High	52 week Low	ago (approx)
Australia (73)	214.65	7.3	191.23	176.97	204.70	214.94	5.2	3.62	214.16	192.43	176.53	203.47	214.98	243.67	190.26	218.21
Austria (23)	211.98	12.1	168.85	174.76	201.99	14.4	1.61	211.02	187.82	173.93	200.47	210.32	213.59	175.14	184.01	
Belgium (25)	306.96	20.8	273.48	253.05	292.72	268.42	23.2	2.47	304.03	270.31	250.59	288.63	282.66	306.96	227.73	228.70
Brazil (30)	265.18	11.2	236.24	218.62	252.88	353.67	13.0	1.58	262.41	233.31	216.28	249.26	245.79	272.44	194.94	237.80
Canada (120)	240.03	13.0	213.84	197.89	228.90	246.51	12.0	1.63	239.86	213.10	197.55	227.89	245.98	240.85	178.27	182.55
Denmark (34)	484.24	10.5	440.31	407.47	471.32	470.05	12.6	1.27	491.47	438.97	405.07	468.89	465.77	484.24	348.27	354.01
Finland (28)	371.84	33.5	331.26	306.55	354.59	434.01	36.4	2.08	375.58	333.93	309.56	358.80	345.98	376.27	243.25	360.03
France (79)	265.01	18.1	253.91	234.97	271.80	274.87	21.7	2.86	265.26	233.64	235.13	271.01	274.16	265.28	209.81	215.43
Germany (58)	284.80	15.4	235.90	218.31	252.52	252.52	17.7	1.26	262.53	233.41	216.38	248.40	248.40	265.44	193.39	214.32
Hong Kong, China (66)	357.95	0.3	318.89	310.50	341.35	358.03	0.2	4.48	354.65	315.33	292.31	336.92	352.80	580.03	262.93	454.32
Indonesia (27)	49.75	-24.7	44.32	41.01	47.44	294.51	32.2	2.29	45.82	40.74	37.77	43.53	268.74	254.90	27.67	231.51
Ireland (16)	518.43	28.4	462.75	428.23	495.34	534.58	34.7	1.86	520.39	482.68	426.91	484.37	533.37	520.39	321.33	321.33
Italy (54)	152.78	22.9	136.11	125.95	145.69	205.85	32.5	1.19	150.17	133.52	123.78	142.66	201.89	152.78	83.46	93.94
Japan (481)	93.96	4.9	89.05	82.41	95.33	82.41	5.2	0.96	99.56	88.52	82.05	94.58	82.05	141.12	88.52	114.40
Malaysia (107)	220.52	34.1	196.46	181.61	210.30	310.21	25.9	2.22	221.04	198.53	182.18	209.98	311.01	327.76	113.56	327.76
Mexico (29)	1613.73	-10.5	1437.65	1330.41	1538.90	1514.17	4.4	1.50	1598.61	1422.23	1318.42	1519.61	1467.74	1801.98	1228.20	1353.94
Netherlands (19)	473.58	15.5	421.20	390.43	451.52	446.88	17.8	2.05	466.34	414.82	384.35	443.01	438.39	474.49	330.32	394.75
New Zealand (14)	76.83	0.3	68.27	63.16	73.08	72.39	3.6	4.51	76.67	68.17	63.23	72.84	72.28	96.47	71.49	83.33
Norway (36)	324.20	1.5	288.82	267.28	309.16	335.08	4.8	1.87	325.85	299.71	268.57	309.55	335.30	374.84	281.52	300.45
Philippines (22)	103.57	30.5	92.27	85.36	98.77	194.97	23.5	1.05	103.15	91.72	85.03	98.00	105.54	198.93	57.54	196.11
Singapore (42)	241.78	7.4	215.40	199.33	230.57	178.69	23	1.78	246.74	219.37	203.35	234.46	182.65	402.97	144.01	389.22
South Africa (43)	289.35	9.0	257.77	238.55	275.93	314.95	11.6	2.79	291.89	259.52	240.58	277.29	317.36	385.52	227.68	386.66
Spain (33)	361.15	32.9	321.75	297.75	344.41	425.29	35.5	1.70	351.65	312.65	289.03	334.06	412.96	361.15	210.11	210.63
Sweden (45)	559.21	19.1	498.19	461.03	533.28	560.45	18.8	1.77	558.08	494.37	459.29	522.22	558.80	562.59	405.00	418.11
Switzerland (31)	387.32	13.7	345.06	319.32	366.36	359.95	16.8	1.07	381.53	339.22	314.46	362.45	352.91	384.76	250.13	350.13
Thailand (39)	32.06	28.6	25.56	26.43	30.57	46.34	36.8	6.32	32.43	28.84	26.73	30.81	50.48	84.97	13.10	70.25
United Kingdom (211)	387.95	16.8	345.62	319.84	368.86	345.62	15.6	2.84	380.56	347.25	321.91	371.03	347.25	386.35	271.72	271.72
USA (335)	448.83	13.2	399.86	370.03	428.02	448.83	13.2	1.41	445.40	398.01	367.11	423.13	445.40	448.83	288.79	317.91
America (617)	408.83	13.0	352.44	335.41	387.97	343.49	13.0	1.42	403.82	359.04	332.83	363.62	340.93	406.83	274.59	291.02
Europe (589)	341.41	18.1	304.16	281.47	325.58	328.58	19.2	2.05	340.05	322.35	300.35	322.05	324.33	341.41	237.94	237.94
Middle East (149)	496.32	17.8	433.25	400.94	463.77	503.68	18.5	1.75	485.25	431.44	388.85	460.98	501.77	486.40	355.77	384.70
Pacific Basin (871)	111.43	5.2	99.27	91.87	106.27	92.62	5.1	1.61	110.99	98.98	91.48	103.44	92.27	158.93	95.32	134.20
Non-Pacific (572)	207.32	13.7	184.70	170.92	197.70	180.63	14.3	1.91	206.50	163.60	170.21	198.17	178.57	208.12	172.03	177.42

Emerging markets:

Emerging market

IFC investable choices		Global income	
Market	Symbol	Day chg	% Chg
Asia			
Argentina	1200.50	-42	-0.35
Brazil	580.00	-42	-0.72
China	560.50	-43	-0.75
Colombia	507.50	-41	-0.81
India	560.50	-43	-0.75
Peru	180.00	-45	-0.25
Thailand	700.00	-41	-0.57
Uruguay	100.00	-41	-0.40
Venezuela	100.00	-41	-0.40
West Asia			
China	515.00	+14	+2.80
Korea	511.00	+14	+2.80
Philippines	147.50	+42	+2.94
Taiwan, China	150.00	+49	+3.33
South Asia			
India	55.00	+15	+2.80
Indonesia	24.50	+15	+2.80
Malaysia	24.50	+15	+2.80
Pakistan	20.00	+15	+2.80
Sri Lanka	20.00	+15	+2.80
Central America			
Costa Rica	51.50	+45	+2.80
El Salvador	10.50	+42	+2.80
Honduras	10.50	+41	+2.80
Nicaragua	10.50	+41	+2.80
Panama	10.50	+41	+2.80
South America			
Bolivia	10.50	+42	+2.80
Chile	120.00	+43	+2.80
Colombia	120.00	+43	+2.80
Ecuador	120.00	+43	+2.80
Peru	120.00	+43	+2.80
Uruguay	100.00	+41	+2.80
Venezuela	100.00	+41	+2.80
Latin America			
Bolivia	120.00	+43	+2.80
Chile	120.00	+43	+2.80
Colombia	120.00	+43	+2.80
Ecuador	120.00	+43	+2.80
Peru	120.00	+43	+2.80
Venezuela	100.00	+41	+2.80

FT GUIDE TO THE WEEK

MONDAY 23

The full Oscar

At most Oscar ceremonies, the talking point is which film will pick up most awards, but when the 70th Academy Awards kick off in Los Angeles tonight, the burning question for the audience will be how many awards *Titanic* will win. After breaking a string of box office records, *Titanic* can also claim to be the first film since 1950's *All About Eve* to garner 14 Oscar nominations. Tonight's ceremony will reveal whether it can also beat the *Bonnie and Clyde* coup of winning 11 awards. But James Cameron's blockbuster faces stiff competition from a string of critical hits, notably Curtis Hanson's *LA Confidential*, Gus Van Sant's *Good Will Hunting*, the Golden Globe-winning *As Good As It Gets*, and the British success, *The Full Monty*.

Patent protection

The UK Patent Office, backed by the European Commission, holds a conference on the protection of software patents, which under present legislation are excluded from the patent system. The subject is of vital importance to managers of the European software industry, which last year was estimated to be worth £60bn (US\$100bn) and growing at an annual rate of between 6 and 7 per cent.

ILO election

The International Labour Organisation's governing body elects a new director-general to succeed Michel Hansen of Belgium in March 1999. Juan Somavia, Chile's ambassador to the United Nations in New York, who has US and trade union support, is expected to emerge the victor over Maria Neves Roldan-Confesor of the Philippines, south-east Asia's candidate. Also on the agenda is the text of a declaration on fundamental labour rights for endorsement at the ILO's annual meeting in June.

Global trade view

The impact of globalisation on the environment, jobs, social and cultural diversity and ethical values will be the subject of a three-day conference in Geneva on policing the global economy. The conference, jointly hosted by the Believe Foundation headed by Prince Sadruddin Aga Khan and Globe, an international parliamentary group concerned with environmental issues, also aims to re-examine the trade/environment debate in the World Trade Organisation.

Air quality check

European Union environment ministers will attempt to agree on four different pieces of environmental legislation, including targets for reducing landfill waste across the EU, and reducing emissions from light vans. Also on the agenda are an initial debate on the EU's strategy for



The west's film industry gets all dressed up and congratulates itself at the Oscars ceremony in Los Angeles today

meeting its targets on reducing greenhouse gases, after the Kyoto summit on climate change in December, and how the burden should be shared among European states. Ministers will also examine the latest proposals from car manufacturers for a voluntary agreement on reducing carbon dioxide emissions, and hold a preliminary debate on controversial proposals to improve animal welfare in zoos.

Telecoms for all

More than 1,000 government and industry representatives are expected in Valletta, Malta, for the second World Telecommunication Development Conference (to April 1), which will discuss how to improve access to telecoms networks in poorer nations. The conference organisers, the International Telecommunication Union, note that while new technologies such as mobile telephony and the Internet are revolutionising life in industrialised nations, most of the world's population have problems even making a simple telephone call. Only a fifth of the earth's 600m phone lines are in developing countries.

Ocean view

World Meteorological Day takes weather, oceans and human activity as its theme in

the United Nations year of the oceans. Noting that nearly two-thirds of the world's population live in coastal zones, the Geneva-based World Meteorological Organisation highlights the threats to oceans caused by development, pollution and overfishing as well as the influence of oceans on global climate and weather conditions.

Rally round

The opening leg of the world rally championship, the Rally of Portugal, begins at Matosinhos.

FT Surveys

Switzerland; Emu.

Holidays

Iran, Pakistan.

TUESDAY 24

Trade outlook

The World Trade Organisation publishes its first estimates of global trade volumes last year and makes some early predictions for 1998 in the wake of the Asian financial

crisis. The Geneva-based WTO said in December that world trade growth accelerated in 1997 despite the crisis, buoyed by robust activity in North and South America and economic recovery in Europe. The full impact of the Asian crisis will be felt this year but most analysts expect it to be modest overall. Moreover, a massive export surge from east Asia following big currency devaluations looks increasingly unlikely.

Net gain for dolphins sought

European Union fisheries ministers meet in Brussels to attempt to get closer to agreement on banning the use of drift nets at sea for tuna and salmon – to prevent damaging by-catches of dolphins and other animals. Several states are keen to see a ban, but countries such as Ireland, Italy and France, which use the nets, are unhappy. Officials hope to pave the way for agreement by the summer.

TB or not TB

World Tuberculosis Day commemorates March 24 1882 when Dr Koch announced his discovery of the TB bacillus that paved the way for treatment, cure and potential elimination. However, the World Health Organisation, which in 1983 declared TB a global emergency, says some countries are

ECONOMIC DIARY

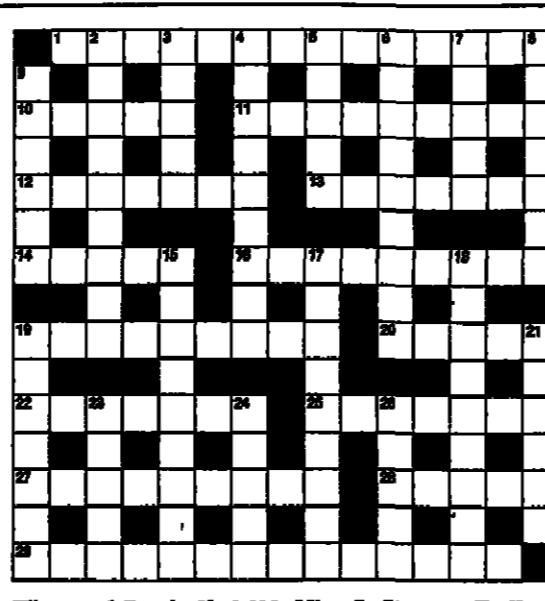
Other economic news

Monday: Germany's producer price data for February is expected to be published, staying around January's annual growth of 0.7 per cent. Western Germany's CPI is expected on Tuesday, with the annual rate declining slightly, according to Deutsche Morgan Grenfell. Tuesday: January's sharp 0.8 per cent rise in Canadian consumer prices were a result of that month's poor weather; February is likely to see a return to lower inflation, with annual CPI growth of 1 per cent. Wednesday: US durable goods orders for February are expected to rise, although by less than half of January's upwardly-revised 1.6 per cent monthly growth. Thursday: New Zealand's current account is forecast to show a deficit equal to 7 per cent of gross domestic product for 1997, after weakening transfer and trade balances in the fourth quarter last year. The UK's visible trade balance for January is published, with erratic exports helping to keep the deficit to about £1.1bn. Friday: France's trade balance may start to show the effects of Asian turmoil, with a smaller surplus for January than December's FFr13.8bn.

Day	Country	Indicator	Median	Previous	Day	Country	Indicator	Median
Mon	JAPAN	Jan coincident index	20.0%	0.0%		CANADA	Feb leading indicators	22.2%
Mar 23	JAPAN	Jan leading differential index	22.2%	30.0%		US	Feb 10-year treasury note yield	4.8%
	SINGAPORE	Feb consumer price index	1.8%	1.2%		DENMARK	Q4 gross domestic product	6.0%
	TAIWAN	Feb unemployment rate	2.3%	2.35%	Thu	FRANCE	Feb voluntary unemployment	1.1%
	HO' KONG	consumer price index (A)*	4.8%	5.1%	Mar 25	ITALY	Jan quantity theory of money	0.0%
Tue	FINLAND	Q4 gross domestic product**	6.0%	6.0%		SWEDEN	Feb producer price index	0.0%
Mar 24	FRANCE	Jan industrial production**	-0.5%	2.3%		UK	Jan retail vehicle sales	0.0%
	FRANCE	Jan ex-energy*	-0.5%	3.8%		UK	Feb retail vehicle sales	0.0%
	CANADA	Feb core price index, all items not**	-0.1%	0.6%		US	Q4 gross domestic product	6.0%
	CANADA	Feb core price index, all items not**	1.0%	1.1%		CANADA	Feb industrial production index	0.0%
	CANADA	Feb core price index, ex-food/energy not**	-1.1%	1.2%		CANADA	Feb new residential permits	0.0%
	CANADA	Feb int'l. sec transactions	-C\$0.4bn	-C\$2.2bn		JAPAN	Feb retail sales	0.0%
	US	BTM-Schroders March 21	0.6%			JAPAN	Feb wholesale price index	0.0%
	ITALY	Mar 11 cities core price index*	0.1%	0.3%		JAPAN	Feb consumer price index	1.2%
	ITALY	Mar 11 cities core price index*	1.8%	1.8%		JAPAN	Mar consumer price index	1.2%
	US	Febbook 21 March	-2.3%					
	JAPAN	Mar trade balance 1st 10 days not†	Y142bn					
	NORWAY	Dec current account	Nkr4.8bn	Nkr3bn				
	DENMARK	Feb consumer price index**	1.8%	1.7%				
	WED	SWEDEN Jan retail sales	2.2%					
	Mar 25	FRANCE Feb consumer price index final*	0.4%	0.35%				
	FRANCE	Feb consumer price index final**	-0.8%	0.75%				
	SWEDEN	Feb trade balance	Sk1.0bn	Sk0.77bn				
	US	Feb durable orders	0.6%	0.7%				
	US	Feb durable shipments	-1.4%					

ACROSS

- Steal fitting after writing about one (14)
- Some room Nancy cleaned round (5)
- Rescuer's story about fellow taking swim (9)
- Stray cat I recollect wandering (7)
- To reveal is to err badly (7)
- Colour I used in a labyrinth (6)
- Chew gum at final whistle (9)
- Stony point of view of girl (9)
- Handed student the chairman's hammer (5)
- Drank with one doctor having taken one to bed! (7)
- Mum's in time if returning tights made of this (7)
- Black, staggering, carried a block (9)
- Avoid taking time the day before (5)
- Brush madly then broadcast some music (6,3,6)
- Leading man in Rada ruined play (5)
- Wave from a toff (5)



Winner of Puzzle No.9,626: Miss C. Stevens, Shefford, Bedfordshire.

MONDAY PRIZE CROSSWORD

No.9,638 Set by GRIFFIN

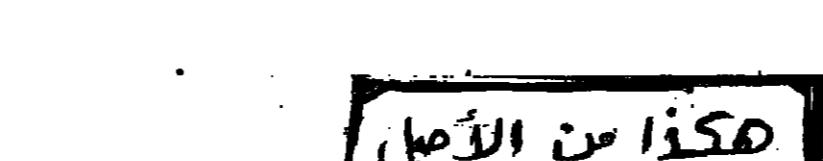
A magazine of Lamont Peveril Best champions for the first correct solution given. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday April 2, marked Monday Crossword 9,638 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday April 6. Please allow 28 days for delivery of prizes.

Name _____

Address _____

Solution 9,626

DOCTOR ELEONORA
THEATRE DIRECTOR
NO FEAR
APPENDIX BISCUIT
CAMPAGNO
TORE BLASCHKE
RE BAUT
HEADSTRONG OTTO
APPOINTED
MULTIPLY GROWNS
A BEE RIDE
MARSHAL PANTRY



falling to tackle TB effectively. Among infectious diseases, TB remains the biggest killer of youth and adults, with some 7m new cases each year, and the epidemic is being made worse by the explosion in HIV/AIDS.

Internet seminar

The European Multimedia Forum holds a seminar in Brussels on "Europe's contribution to the global information society". The agenda includes the global information society – a virtual reality; building a global regulatory framework; the International telecommunications charter; and the future of Internet governance.

Paris address

The UK's prime minister Tony Blair addresses the French National Assembly.

FT Surveys

Global Stock Exchanges; Investing in South Africa.

FT Surveys

Japan's Financial Revolution; Middle East Privatisation.

Holiday

Bangladesh.

SATURDAY 28

Whale meet

The two-day international conference on whales and dolphins opens in Tokyo to discuss human connections with nature in the marine environment. Most of about 700 participants at this 7th conference will be



from Japan but experts from around the world will lecture on ecology, physiology and environmental issues.

Boxing

Atlantic City: Lennox Lewis v Shannon Briggs. Charles Breuer v Herol Graham. Light-heavyweight fight, Henry Wharton v Roland Pelt.

FT Survey

Guide to Low Cost Personal Finance (UK editions only).

Holidays

India, Serbia.

SUNDAY 29

The threat of Emu

Union leaders from across Europe meet in Cardiff to discuss the perceived threat posed to thousands of finance jobs by the introduction of a single currency.

Time to move

Lithuania plans to move into the first European time zone, or Greenwich Mean Time plus one hour, from the second European zone, or GMT plus two. It says the move will bring it closer to western Europe.

Motor sports

The Brazilian Grand Prix, second round of the Formula 1 world motor racing championship is held in São Paulo; At Shah Alam, Malaysia, the opening round of the world 125, 250 and 500cc motorcycle road racing championships takes place.

Holidays

Central African Republic, Indonesia, Mauritius, Madagascar.

Compiled by Roger Beale

Fax 44 171 873 3196

INTERMARKET FUND

SICAF
69, route d'Eich

L-1470 LUXEMBOURG

Notice is hereby given that the Extraordinary General Meeting of shareholders shall be held at the registered office on March 31, 1998 at 3.00 pm for the purpose of considering the following agenda:

- To hear the report of the auditor to the liquidator appointed at the previous Meeting.
- To give discharge to the Liquidator, Auditor to the liquidation and directors who had been in place.
- To decide to close the liquidation and distribute the remaining net assets in cash.
- To decide to keep the records of INTERMARKET FUND for a term of five years at the offices of Banque Internationale à Luxembourg S.A.

Shareholders are advised that at this Meeting, no quorum is required and the decision will be passed by a simple majority of the shares represented at the meeting.

In order to attend the meeting of INTERMARKET FUND, the owners of bearer shares will have to deposit their shares five clear days before the Meeting at the registered office of the Company.

THE BOARD OF DIRECTORS

To the Shareholders of

SVENSKA SELECTION FUND

(Société d'Investissement à Capital Variable)

You are hereby convened to attend the

ORDINARY GENERAL MEETING

of Svenska Selection Fund, which is going

ECONOMIC AND MONETARY UNION

Although May 2 is the selection day for Emu members, many questions remain unanswered. Lionel Barber reports

Safe landing expected for 11 countries

On Saturday, May 2, the 15 heads of government of the European Union will select the founder members of economic and monetary union, the most momentous step toward greater European integration in 40 years.

It is a racing certainty that 11 countries, including Italy, will qualify. Britain, Denmark, and Sweden will initially stay on the sidelines for political reasons.

Greece, the sole economic laggard, will be encouraged to join sooner rather than later.

Just 18 months ago, few would have predicted such an outcome. Spain and Portugal's chances of meeting the entry criteria for Emu looked questionable. Italy's prospects looked even more remote. Even France and Germany were struggling.

Yet, in the past 12 months, all EU governments have stiffened the sinews and summoned up the blood to make a sport to the Emu finishing line. On the way, they have scraped around for every spare franc, pfennig, and peseta in extra revenues to hit the Maastricht treaty's public deficit target of 3 per cent of gross domestic product for 1997.

This has been an impressive exercise in political will, especially on the part of Chancellor Helmut Kohl who views Emu as Europe's (and his own) monument for the 21st century. But

there are tentative signs of a deeper economic transformation, especially in Italy, where a centrist government prodded by the Bank of Italy, has performed minor miracles.

But May 2 is not the end of the story. Questions remain about the sustainability of the Emu experiment; the degree of real convergence between the de facto single currency bloc built around the D-Mark and the new converts to the German stability culture from the south; and the creditworthiness of the new members.

For and against Emu: European Central Bank, page 2; history, David Malpass, page 2; Italy, Paolo Giavini, page 3; Portugal, Francisco Soeiro, page 3; France, Charles Fiterman, page 5; fiscal, monetary and exchange rate policy, page 6; Emloyment, Social partners, page 7; Production editor, Steve Terry; Design, Steve Hunt.

ity of a selection process in which almost everyone is a winner and no one is a loser.

These are the doubts which the European Union intends to address in the run-up to the May 1-3 summit in Brussels. For October it has been clear since

Emu would be politically "broad", the politicians know they must offer a convincing economic justification both to the financial markets and a sometimes sceptical public.

The first significant event takes place on March 25 when the European Commission and the European Monetary Institute, the forerunner of the future European Central Bank, publish reports on the progress which the three EU member states have made toward meeting the five Maastricht criteria for Emu. These are:

■ Price stability: member states need to show an average rate of inflation which does not exceed by more than 1.5 per cent the three best performers.

■ Exchange rate stability: countries are expected to observe "normal" fluctuation margins within the exchange rate mechanism for at least two years, without devaluing against the currency of any other member state.

■ Interest rate stability: long-term rates are not expected

to exceed by more than 2 per cent the three best performing member states.

■ Sustainability of public finances: the public deficit should be at or close to 3 per cent of GDP, barring temporary and exceptional circumstances.

■ The ratio of public debt to GDP should not exceed 60 per cent - unless the ratio is sufficiently diminishing and approaching the value "at a satisfactory pace".

In the past few weeks, the Commission and the EMI have been playing a game of cat and mouse over the respective content of their reports. The Commission, which will make the sole recommendation on which countries have met the criteria, has sought to coax the central bankers at the EMI to minimise differences in interpreting the performance of countries.

The EMI - with Hans Tietmeyer, president of the Bundesbank in the forefront - has refused to gloss over weaknesses.

The prime area of concern is the high level of government debt. Belgium and Italy have debt ratios which, though diminishing, are twice the limit set in the Maastricht treaty. A second question is the long-term funding of state pensions, highlighted by low birth rates and an ageing population in Europe.

Romano Prodi, Italy's prime minister, insists he has nothing to prove to the Germans or anyone else who still harbours



In Germany, where public opinion is most fragile, Chancellor

Kohl has invited the Bundesbank to make its own assessment, cleverly co-opting the central bank in the exercise. Speculation about a critical minority report looks

wide of the mark, if only because

Mr Tietmeyer, whose word counts most, will have already signed a broadly favourable EMI report.

Once the EMI and Commission reports are made public, the debate will begin in national parliaments and the European Parliament ahead of the jumbo summit over the weekend of May 1-3.

The first meeting takes place among EU finance ministers on Friday, May 1. They will formally debate the Commission report and make recommendations to

EU leaders who will make the historic choice of the founder EU countries the next day.

At the same time, EU leaders are also expected to formally unveil their choice of the president of the European Central Bank, the vice-president, and the four other members of the executive board. Wim Duisenberg, the former president of the Dutch central bank and EMI president

appears to have confirmed his front-runner status, though Jean-Claude Trichet, governor of the Banque de France, is still in the running.

Finally, EU finance ministers and national central bank governors, are expected to announce the bilateral exchange rates among currencies in the future euro zone.

The purpose is to minimise exchange rate volatility ahead of the irrevocable fixing of parities when Emu is formally launched on January 1, 1999 and a single monetary policy operates across the euro zone. For the next three years, national currencies will co-exist as non decimal denominations of the euro. Euro notes and coins will enter circulation in January and June 2002.

Without the euro jangling in the public's pocket, one might describe this lengthy transition period as "virtual monetary union". But in fact those countries inside the single currency zone will use the time to put in place the building blocks of the post-Emu world.

This means the successful launch of the new European Central Bank, the maintenance of budgetary discipline through the German-inspired Stability and Growth Pact; and the launch of the new Euro-X forum which Emu members will use to co-ordinate their economic policies.

In policy terms, the Frankfurt-based Euro-fed will have to decide whether to adopt inflation or monetary targets or a combination of both. But in practical terms, the challenge will be to establish the credibility of the new currency and the new institution with resources which will initially fall short of national central banks.

Second, economic management in the euro zone will depend on co-ordination in established forums such as the Ecofin meetings of EU finance ministers, but also on the new body known as the Euro-X club. This is the Brussels code-word for informal meetings of Emu members.

The gestation of the single currency has been painful: in the popular mind, it has become associated with low growth, budget austerity and high unemployment. After May 2, Europe's search for monetary stability will have moved to a new stage. Now comes the hard part: making the new system work.

WHAT DO THE EUROPEAN LEADERS SAY?

SEE BACK PAGE



2 ECONOMIC AND MONETARY UNION



THE CASE FOR EMU

WOLFGANG MÜNCHAU



THE CASE AGAINST EMU

ROBERT CHOTE

Europe's big opportunity Cliffhanging imprudence

Pessimists abound but there are many reasons for optimism

Few economic events in recent years have been greeted with more pessimism than European economic and monetary union. The critics have warned that a monetary union without parallel political union cannot work in the long term. Their argument suggests that the institutions of the monetary union would lack political support, and monetary policy would become progressively biased. This imbalance, they claim, could lead to high unemployment, high inflation or both. Therefore, Emu would ultimately come unstuck.

Of course, it is conceivable that Emu will founder, but these doubts would apply to any new regime. Notwithstanding the inevitable uncertainties, there are reasons for optimism.

The crucial question is: will Emu will have a positive dynamic impact on the economy? In other words: does Emu have "real" effects – those that impinge upon economic growth and jobs – or is it merely a nominal change in exchange-rate regimes? If the effects were purely nominal, Emu's economic sense would indeed be open to question. Some economists have, in fact, made such a case. But risk-reward trade-off under such a scenario.

This balance would change if Emu had real economic effects. Emu's more confused advocates have been citing savings on transaction and hedging costs, or even the added convenience for tourists as reasons for a single currency. While these are minor advantages, there are no reason to change a currency system.

The real economic advantages will result from interaction between the single currency and the single European market, which exists as a legal reality, but not as an economic reality, since it is ignored by most companies and consumers.

An analogy is the role of technology as a factor in economic growth. Alan Greenspan, chairman of the Federal Reserve Board, argued that the maturing of new technologies and their interaction helped the US achieve



Alan Greenspan: timing the essential ingredient

a relatively long run of robust, non-inflationary growth. His point relates to timing. It is not the invention of the technology that counts, it is the time taken for various technologies to interact, and to catch on.

This is true of Europe's single market. The programme started off as a grand idea in the 1980s but was bogged down by a long list of controversial harmonisation measures. The supposed Big Bang for the single market was supposed to take place in 1992. But the Big Bang turned out to be a damp squib, when most EU countries entered a protracted cyclical economic downturn.

The supposed efficiency gains never came about because consumers and producers – apart from the large multinationals – did not behave as though they were in a single market. National exchange rates, despite the relative stability brought by the exchange rate mechanism of the European Monetary System, acted as a quasi-tariff.

Several US critics of Emu have pointed out that a single currency is not needed to run a successful free trade area. That is true. But a single currency is necessary to

tively inefficient banking system. Investors would be able to buy securities with highly diversified risk/reward trade-offs. No currency, not even the D-Mark, allows such diversity.

But by far the biggest long-term economic effect would result from the way consumers and producers react to the total transparency of wages and prices. Emu is bound to reduce, through arbitrage, the price and wage differentials across the EU, which are significantly greater than they are

across the US. Emu will accelerate the move of production towards the most cost-efficient areas.

It will also accelerate the industrial transformation process in the highly industrialised countries, such as in France and Germany. A policy of supporting ailing industries would become less viable under Emu. Moreover, this would become obvious to the majority of the electorate, in a way that may not yet have occurred to them.

These arguments are almost all microeconomic – or rather they are based on an interaction between microeconomics and politics. These adjustments are difficult to simulate on a computer, although some brave economists have been trying to do precisely that.

Advocates of Emu may be wise to acknowledge that Emu may lead to higher unemployment in the short term. They should concede that the potential for strong efficiency gains would be at risk if Emu were to lead to serious macroeconomic distortions, caused, for example, by asynchronous business cycles, or false fiscal policies. It is at this point where success or failure will depend on behaviour and political processes. The stronger those distortions, the greater the need for fiscal policy co-ordination, if not centralisation, and for fiscal transfers from wealthy to poor areas.

But with those in place, Emu is an opportunity to achieve the biggest welfare and efficiency gains of any economic event or system in post-war European history. The single currency would therefore act as a catalyst that would elevate the single market from a formal to a real event. This process would, of course, initially affect the traded sector of the economy to a greater extent than the non-traded sector.

The other real advantages largely result from the same effect: a single currency would modernise antiquated systems of corporate finance because inefficient domestic capital markets would be replaced by a liquid euro-denominated market in corporate bonds. Medium-sized companies would have access to this new capital market, rather than having to rely for finance on a rela-

tively inefficient banking system. Investors would be able to buy securities with highly diversified risk/reward trade-offs. No currency, not even the D-Mark, allows such diversity.

In judging any economic reform, one should compare benefits and costs. The benefits of monetary union are predictable and will at best be modest; the costs are unpredictable but could easily be spectacular.

The abolition of currency fluctuations within Europe should reduce transaction costs, make national price differences more transparent, promote industrial specialisation and encourage trade and investment flows.

But Germany, France, Austria and the Benelux nations have in effect shared a single monetary policy for a decade, with exchange rates as good as fixed. They have not enjoyed an economic renaissance as a result; so why should the more disparate group that is now to adopt the euro?

Embracing the single currency also means losing both monetary autonomy and the ability to use nominal exchange rate movements as a shock absorber. This need not matter if the currency area possessed three attributes that would allow it to cope with asymmetric shocks or a deterioration in competitiveness within a

member country.

■ Residents owning internationally diversified assets;

■ Fiscal transfers between countries with the flexibility to use fiscal policy nationally;

■ Flexible nominal wages or physical labour mobility.

Joining the single currency means accepting a single interest rate set by the European Central Bank. For some peripheral euro-area members this will mean adopting low interest rates

poorly on all three. Many US residents own significant financial assets in states other than their own, especially equities held in pension funds. So, when the economy in Massachusetts is doing badly, many residents will be cushioned by income from investments in Texas or California. In contrast, most residents of the putative euro-area do not own significant equity assets outside their own country.

Language, cultural and housing market differences also mean that people are less mobile in Europe than in the US. Some economists

argue that US workers move only in response to loose monetary policy with tight fiscal policy, but the mind boggles to think how much more tightly

Europe's lack of long-term labour mobility will still matter.

Wages are also more rigid in Europe than in the US.

"growth and stability pact", which is specially designed to punish a country for running too big a budget deficit by making it even bigger.

But the growth and stability pact may be overtaken by events. The largely unaccountable ECB is likely to run a tight monetary policy in its early years, to establish the "credibility" to which every central bank aspires. Eventually, as unemployment rises and political extremism foments, fiscal prudence will crack.

Unless, of course, the disciplines of the single currency have by then inspired the liberalising structural reforms that years of excessively tight monetary policy in France have so conspicuously failed to deliver.

Floating exchange rates are no more a panacea than fixed ones or a single currency. But Europe would be better served by a regime in which monetary union was confined to those economies that are in effect subsets of Germany's. The remainder should retain their own currencies and pursue monetary policies aimed at low and stable domestic inflation.

Unfortunately, it is too late for this. The broadly based single currency is a bad idea whose time has come.

EUROPEAN CENTRAL BANK • by Wolfgang Münchau

Uncertain outlook for ECB

Many questions about Emu's most important institution remain unanswered

A new central bank, the European Central Bank (ECB), will be set up in Frankfurt this summer. The new bank will be the main institutional change to take place within the European Union in preparation for economic and monetary union.

What kind of central bank will the ECB become? Will it be a European version of the Bundesbank, or a hybrid? These are questions still to be answered. The other big uncertainty is the name of the person who will become its first president. There are two candidates – Wim Duisenberg, the Dutch central banker who is president of the European Monetary Institute, and Jean-Claude Trichet, governor of the Bank of France. Mr Duisenberg is thought to be the clear front-runner, but so far, there is no agreement among EU leaders.

The choice of president is important because it will determine the nature of the ECB. Both candidates adhere to the monetarist orthodoxy that has prevailed among central bankers since the 1970s. Therefore, from the point of view of monetary policy, neither one is preferred above the other.

But there are other factors to consider. A French president could introduce a French cabinet system – close circles of high-level advisers who act as a powerful internal caucus and who would have more influence than the career civil servants. A Dutch central banker would be expected to adhere to the Anglo-German model of hierarchical structures under which career civil servants have direct access to the politically-appointed central bankers.

All this is about power, not about policy as such. Another unresolved power issue is the relationship between the ECB's Frankfurt headquarters and the national central banks. The ECB will be only one institution in a network of central banks known as the European System of Central Banks (ESCB).

The ESCB is modelled closely on the federal central banking system of Germany, where the *Landeszentralbanken*, state central banks, perform important functions as distribution centres, as liaison points for the regional banking system and as a valuable source of intelligence about regional economic conditions. Its presidents, the famous backwoodsmen, are powerful members of the Bundesbank's central council.

But it is the Bundesbank rather than its subsidiaries

that intervenes in the currency markets, when such intervention is necessary. More important, the Bundesbank conducts the money market operations – the bi-weekly securities repurchase operations – by means of which it injects liquidity into the markets and fine-tunes interest rates.

This is where the Bundesbank will differ from the ECB, which will not normally engage in market operations. However, this is an area of dispute, largely between the French, who favour a decentralised system, and the Germans who prefer as much power as possible concentrated in Frankfurt. In terms of political argument it is rare indeed for France to champion decentralisation and be in direct opposition to Germany.

On this point, the French view is likely to prevail. The statutes of the ESCB, together with operating rules that were agreed subsequently as part of the preparations for Emu, appear to favour a decentralised system.

The ECB, by contrast to the Bundesbank, will be a relatively lean operation, employing initially only about 500 people, compared to the many thousand employees in other EU central banks, especially the Bank of France and the Bundesbank. It will operate on a much tighter budget than other central banks and this may not be sufficiently generous to enable it to create a power base.

Financial markets are already wondering what kind of central bank the ECB will be. Mr Duisenberg has always favoured the idea of borrowed credibility, whereby the ECB takes over where the Bundesbank left off.

However, sceptics argue that the ECB will not have the same popular support in the Euro zone as the Bundesbank has in Germany. It

faces a much more diverse political apparatus made up of the various EU institutions – the European Commission, the Ecofin council of finance ministers, the European Parliament and the E-11, the group of finance ministers of the 11 likely first-wave participants in Emu.

A senior German central banker has pointed out that within such an environment the ECB is likely to tread cautiously, even if drastic action was required.

Since the Bundesbank can serve only as a limited role model for the ECB, the question arises whether it should copy the Bundesbank's operating practices. Its board structure already resembled that of the Bundesbank – an internal executive committee headed by the ECB's president, and a decision-making council that consists of the members of the executive committee and the governors of the national central banks.

The problem is that even supporters of monetary targeting, such as Otmar Issing, a senior Bundesbank executive, acknowledges that it can only play a limited role in the early years of Emu, and that it should be complemented by an explicit inflation target. But dual targeting makes transparency far more difficult and the need for effective communication more pressing.

Breaking new ground

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Salomon Smith Barney acted as Joint Lead Manager in this transaction.

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Wim Duisenberg and Jean-Claude Trichet candidates for the presidency

لبنان من الأصل

Recent monetary unions

1. Still surviving but with political union	
British monetary union between England and Scotland	From 1707
Allem monetary union	From 1861
US Federal Reserve System	From 1913
German confederation	From 1860
2. Still surviving without political union	
Belgian-Luxembourg union	From 1832
West African CFA franc zone	From 1944
3. Failed once political system collapsed	
German monetary union	1867-1914 (First World War)
The Soviet system	1917-1991
4. Temporary monetary unions	
Latin monetary union	1865-1914
Scandinavian currency union	1873-1920
5. Other currency pacts	
Gold standard	1870-1913/14
Bretton Woods	1944-1973
ERM	From 1979
Asian currency crisis	1997

HISTORY • by Gerard Lyons

Survival depends on political union

The lessons of history suggest that the success of Emu is far from guaranteed

The European economic and monetary union (Emu) may need to become a political union to survive. This is one lesson from a historical analysis of monetary unions in the 19th and 20th centuries. Monetary unions of large sovereign nations which do not have political union eventually fall, sometimes after a long time.

Politics has been the driving force behind Emu. Since the Luxembourg prime minister presided over the Werner Report in October 1970, the irreversible fixing of exchange rates has been a central objective in European economic policy. Yet, even in 1970 it was not a new idea. A century ago Europe was also dominated by the desire for currency stability and the experience then suggests Emu's success is far from guaranteed.

Monetary unions can be divided into four categories, as shown in the table.

The first category is where political union has ensured the monetary union's success. Many examples fit this category. A recent example is German unification. Longer lasting is last century's Italian monetary union. Gerard Lyons is chief

union, which economist of DKB International followed political unification in 1861. The example Emu may try and emulate is the US Federal Reserve, established in 1913 as a decentralised system. The setting of twin policy mandates for the Federal Open Market Committee, as well as accountability to Congress, have ensured a credible yet flexible monetary policy. This has been supported by flexibility in the labour market and in fiscal policy, helping to create the conditions for employment growth that Europe has been unable to match.

Second, monetary unions of small countries can survive without political union, provided there has been economic convergence. Two examples are the 1923 Union between Belgium and Luxembourg and the CFA franc zone in west Africa, which has survived from 1948, helped by a substantial devaluation in 1994 following disappointing economic performance.

The third category is where the survival of the monetary union is dependent on the political system. Once the political system binding it together collapses the monetary union falls. One example is the collapse of the Soviet system, another is the failure of the 19th century German monetary union. This was one of three monetary unions which co-existed across Europe a century ago, the other two without political union. All three survived for some time.

There is a common perception that political union preceded German monetary union in the 19th century. Yet, many elements of monetary union were in place following the creation of the Zollverein in 1834, which removed all internal tariffs and created a single market, prior to German political union in 1871. Then followed the formation of the Reichs-

bank in 1871 and the introduction of the mark in 1876. The collapse came at the outbreak of the first world war.

The fourth category is a temporary monetary union that survives for a long time without political union but eventually collapses. The Latin and Scandinavian monetary unions from last century are examples.

The Latin monetary union was formed in 1865 between France and the closely linked economies of Belgium, Italy and Switzerland. Greece joined in 1888. It was a bimetallic union, initially based on silver and then on gold. The precious metal standard, common in old unions, reflected a commitment to fiscal conservatism and small balanced budgets. This union ran alongside Germany's monetary union until the first world war.

Denmark and Sweden almost joined the Latin monetary union but did not, because of the Franco-Prussian War. Instead, they formed the Scandinavian currency union, which Norway joined in 1875. This was the most stable of all the unions, benefiting from economic and political stability and common policy objectives.

The suspension of the gold standard at the outbreak of the first world war led to volatility in real exchange rates and provided the trigger for the gradual collapse of the Union in 1920.

The lesson is monetary unions of politically independent, large sovereign nations can fail, particularly when there is an external shock, causing the economic environment to change. It is easier for unions to survive when the economic cycle is favourable. The long time during which both the Latin and Scandinavian unions survived demonstrates the importance to withhold judgment on the success of a union until its performance can be judged in an economic downswing or when there is a deflationary shock.

There is also a fifth relevant category for Emu. This is the lesson from currency pacts or other systems. The lesson from the gold standard, Bretton Woods or even the exchange rate mechanism (ERM) is the need for flexibility, particularly when currency systems are attempting to bind together economies whose cycles and structures are different. The ERM worked well in its first phase, from 1979-87 because the system was flexible, with 11 frequent realignments. The second phase between 1987-92 appeared to work well. There was only one realignment, when the lira moved to a narrow band. Yet all that happened was that problems built up below the surface. Nominal exchange rates did not change, but real rates moved badly out of line, providing the catalyst for the system's near collapse in September 1992.

Flexibility is important for any currency system.

Last year's Asian currency crisis was the latest example of the clash between domestic and external needs. Previous experience of monetary unions in Europe is that they can last for some time, but ultimately Emu must become a political union to survive.

COULD EMU COLLAPSE? • by Wolfgang Münchau

Only politics can destroy Emu

There are many doomsday theorists but Emu appears now to be well on course.

Conspiracy theorists all over Europe love to speculate on the possibility that Emu will eventually collapse. Now that Emu is almost certain to start on schedule next year, the forecast of a pending disaster has replaced the previously favoured prediction that Emu would never get off the ground.

EU central bankers and monetary officials, who spent the past few years making sure that Emu will work, seem relatively unperturbed by the suggestion that it might eventually collapse. By contrast, euro-sceptic economists in the UK and the US are excited by the prospect of disaster.

Can Emu collapse? The short answer is of course it can. But do not hold your breath.

Assuming Emu starts on time next year, there will be two phases. During the first phase, ranging from 1999 until the end of 2001, national banknotes will con-

tinue to circulate alongside a virtual euro, which will only exist as a non-cash transaction currency.

From July 2002, the euro will be the only legal tender in Emu for cash and non-cash transactions. During the first six months of 2002, the two phases will overlap.

After July 2002, national banknotes will no longer exist.

Discussion of a breakdown must distinguish between the two different phases. A breakdown in the final phase of Emu would be similar to a break-down of the dollar or of sterling. That would not happen unless national governments – probably backed by referendums or two-thirds parliamentary majorities – decided to pull out of Emu and reintroduce national currencies. Since these currencies would no longer exist, governments would be faced with an enormous problem. Because it took several years for central banks to prepare for the transition from national currencies to Emu, a reversion to national currencies could not be achieved overnight. It would take almost as long to get out of Emu, as it took to get into Emu.

Once established, the life-or-death choices become highly asymmetric. The risk of continuing Emu will always be more calculable and more palatable than the risk of abolishing it after 2002.

In the 1999-2001 phase, the situation is not fundamentally different, despite the uninterrupted circulation of

A government would have to muster political support for an orderly withdrawal followed by a relatively lengthy preparation process.

There are other, more disturbing, but less likely scenarios. For example, Emu could break up as economic tension becomes unbearable. But those who believe in this scenario should try to position themselves into the position of future EU leaders who would have to take such a decision.

An overnight break-up of a currency zone, without preparation, would entail massive risks. There would be no banknotes ready for distribution the next day. It could entail enormous systemic risk for the financial sector. Banks would find themselves with liabilities in expensive dollars, and assets of worthless euros.

Once established, the life-or-death choices become highly asymmetric. The risk of continuing Emu will always be more calculable and more palatable than the risk of abolishing it after 2002.

In the 1999-2001 phase, the situation is not fundamentally different, despite the uninterrupted circulation of

national banknotes.

Since national currencies would remain in circulation, and coins could not yet have been distributed, a break-up of Emu would, during this phase, leave national governments free to re-issue national banknotes and coins under a domestic monetary regime. These national currencies would then presumably free-float against the others.

Walter Elts, a UK economist, has argued that such a possibility could induce holders of, for example, lira banknotes and coins to pile into D-Mark banknotes after 1999. This could be a profitable tactic, if Emu were subsequently to break up. The assumption is that under such circumstances the D-Mark would be reintroduced as a *bona fide* currency and would appreciate sharply.

But this theory ignores some realities. First, while piling into D-Marks is possible, it would by itself not jeopardise Emu. Unlike the exchange rate mechanism, Emu cannot be driven apart by speculative attack. During the transition period, lira and D-Mark banknotes

would be denominations of the same currency, the euro. If everybody piled into D-Marks, the money supply of the euro would not change. Only its composition would change. This scenario would only be profitable if Emu were to break up for other reasons. It is, however, highly unlikely that governments would pull out of Emu so soon.

Furthermore, the scenario also misjudges the mechanism by which national currencies would be reintroduced. A break-up would be no orderly process. There would be no ERM to glue them together. There is nothing that would prevent a reincarnated Bundesbank treating these speculative D-Mark accounts held outside Germany as non-existent.

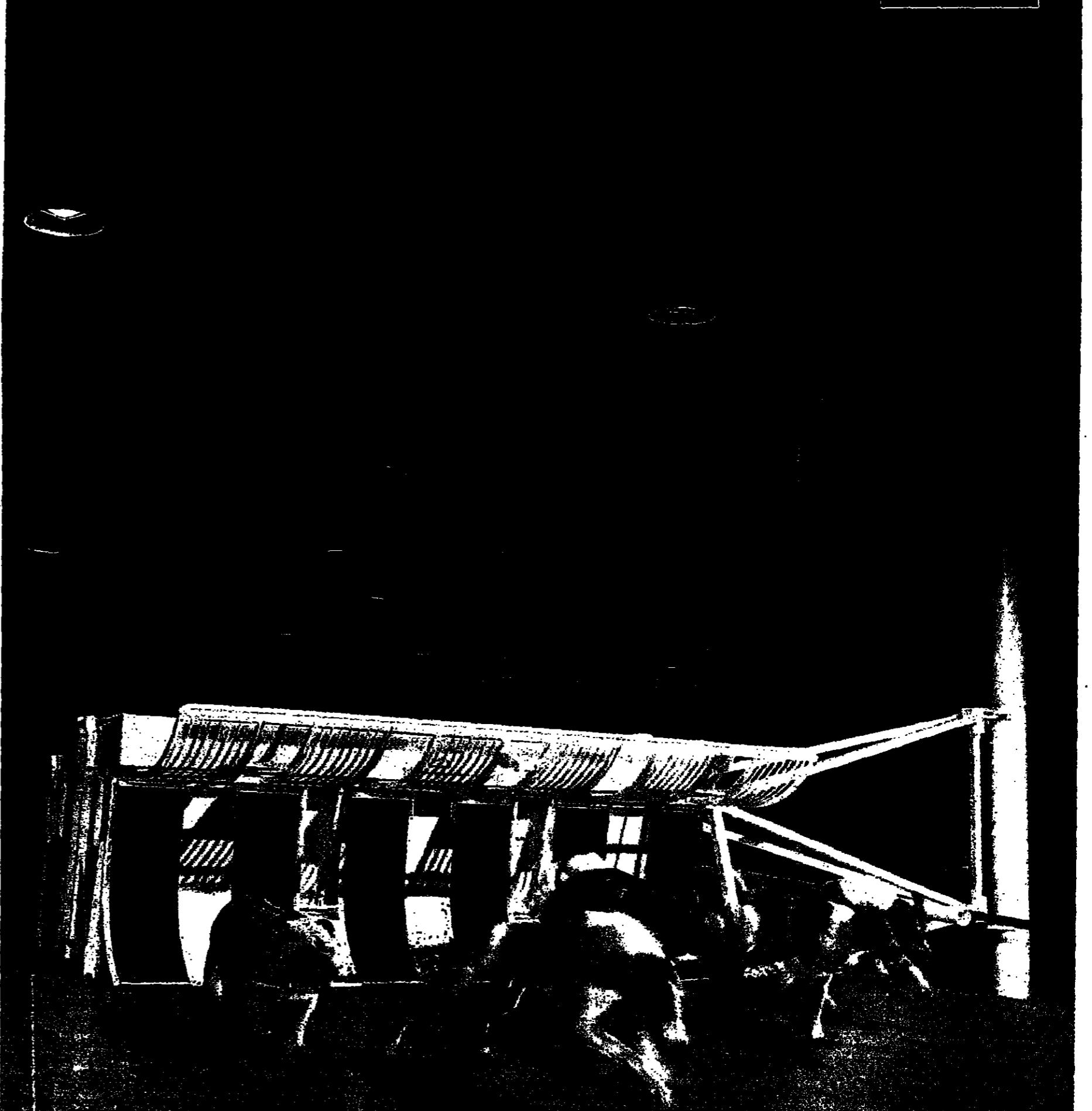
It can be argued that these so-called D-Mark accounts would be merely denominations of a defunct euro. A newly-introduced D-Mark would be a legally different currency from the old D-Mark.

The point is that Emu can only be destroyed by a political event. Such a political event would in all likelihood only occur in times of massive economic pressure and

distortions. The sceptics are right in their assumption, but wrong in their conclusion. The chances of strong economic distortions at one point in the next 10 or 15 years, must be very high. But this does not make a breakdown of Emu any more likely. On the contrary. If faced with the prospect of a break-up of Emu, with all the risks that this would involve, EU politicians would probably choose the soft option: joint action on taxes and mutual assistance, or whatever else it takes to reduce the disturbances.

This means that, under conditions of distress, EU leaders would be far more likely to opt for what the French call 'economic government' – a system of tax co-ordination, perhaps even an Emu-wide finance ministry, and a system of fund transfers to smooth the cyclical swings between booming and depressed economies.

The irony is that the conditions for the break-up of Emu are exactly the same as those that could lead to even more political and economic integration and centralisation.

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4 ECONOMIC AND MONETARY UNION

Lines of power in the Emu structure

European Central Bank
The ECB stands at the heart of Emu. It is the central bank for the Emu zone, and the sole issuer of the euro, the new currency. The ECB will be based in Frankfurt, where it is expected to take over physically and legally from the European Monetary Institute, its precursor.

The ECB will be headed by a president, who has not yet been nominated. The president will be appointed by EU heads of state and government, probably at a special EU summit to be held in Brussels, May 1-3, 1998. The executive committee of the ECB will consist of a president, vice-president and four other members drawn from countries that participate in Emu. Their term of office is eight years, non-renewable, but there are different transitional arrangements for the first set of executives. The term of the first vice-president, for example, will be only four years.

The ECB's main objective, as defined in the Maastricht Treaty, is to ensure price stability. Like other central banks, it will set short-term interest rates with a view to achieving its objective. The level of interest rates will be set by its governing council, which consists of the executive committee and the governors of the participating national central banks. Under the Treaty, all members of the council must be independent from political interference. It is one of the strongest legal forms of independence ever devised for a central bank.

National central banks
Contrary to popular perception, national central banks will continue to exist and will play an important role under Emu. Together, the ECB and national central banks will form the European System of Central Banks (ESCB). Similar to the federal central bank systems in the US and Germany, the operations of the ESCB will be highly decentralised.

While the ECB's governing council determines the overall stance of policy, national central banks will retain operational responsibility. The precise share-out, however, has not yet been established. There are also different views among EU central bankers about the desired degree of centralisation.

It is likely that large national central banks, such as the Bundesbank and the Bank of France, will play an important role in money market operations, for example, by conducting regular securities repurchase operations, with the help of these so-called repos. The ESCB will supply the financial system with liquidity, and fine-tune the level of interest rates within the parameters set by the ECB's governing council.

Intervention in foreign exchange markets
will also be conducted by national central banks, if such action is deemed appropriate.

Euro-X
This is the prime decision-making forum on macro-economic policy comprising finance ministers of all 15 member states. Meetings take place every month. They have grown in importance as the blueprint for the single currency has taken shape, and many observers believe Euro-X amounts to an economic government by any other name.

In the post-Emu world, Euro-X will be responsible for general economic guidelines, continuing the use of peer pressure to encourage budgetary rectitude. But only euro zone members will have the right to vote on actions against fiscal badgers and on external exchange rate policy for the euro.

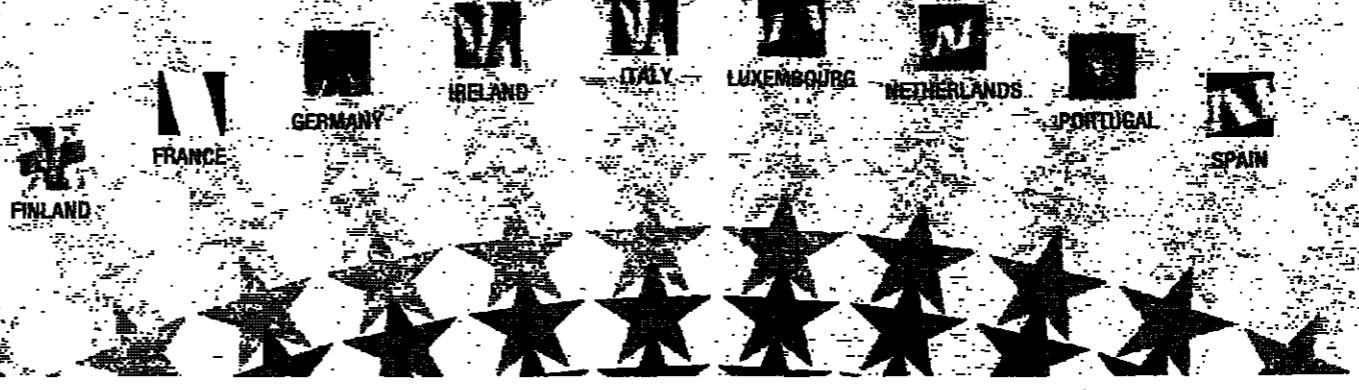
Also, Euro-X has a potential rival body - the Euro X (see below), the informal grouping of members of the single currency zone.

Economic and financial committee
It remains unclear how the Euro-X will work in practice, but France is determined that it will play a central role in defining the common interests of the euro zone. It could have a permanent rather than a rotating chairman.

On policy, it could shape the ECB's responses to short-term shocks or market turbulence. It could also define the common position of the majority of EU members in international institutions such as the G-7 or the International Monetary Fund. Some observers believe Euro-X is also likely to be the forum for new EU-wide initiatives in key areas such as taxation. Meetings are likely to begin soon after May 2.

European Commission
Fighting hard to preserve its role at the centre of co-ordination of economic policy. The Commission will continue to prepare recommendations on broad macro-economic guidelines, monitoring member states' performance, and if necessary drawing attention to slippage. It monitors the stability and growth pact as well as analysing member states' "convergence" programmes, preparing recommendations, including possible fines. The Commission has successfully carved out a role for itself in co-ordination of employment policy, but is struggling to establish its influence in external representation of the euro in G7 and the IMF.

European Parliament
Slowly raising its profile in preparation for the post-Emu world. MEPs will debate the recommendations of the European Commission on which countries qualify for Emu on May 2. They will also grill the nominees to the executive board of the Central Bank. Maastricht also requires the ECB president to present the bank's annual report to Parliament, which can hold a general debate. The treaty also provides for regular contacts between the ECB and Parliamentary committees. The model fails short of the Federal Reserve-US Congress, but it will, above all,



ITALY • by James Blitz in Rome

Set to be a founder member

Italy has cleaned up public finances but now faces new challenges

Italy looks like it has done it. Barring what would now be a remarkable turn of events, the country looks set to be a founder member of the single European currency when the final decision is taken in May.

But although entry into Emu reflects the considerable achievement of cleaning up Italy's public finances, Romano Prodi's government will soon be facing a new and no less serious task. Can it carry out a range of reforms in the public and private sector that make the country more competitive in the new and more challenging euro area?

In recent weeks, as the starting date for the euro has moved ever closer, leading politicians and business figures - including Mr Prodi himself - have been switching the nation's attention to the task ahead.

Few would go quite as far as Antonio Fazio, the Bank of Italy's governor, who recently predicted that life in the euro for Italy would be "purgatory". But the country faces three main challenges that need to be addressed if, at best Italy, is to thrive in the euro. And, if, at the very worst, it is not to fall out of it.

The first challenge is the one faced by Italy's public sector. For as long as anyone can remember, Italy's state sector has been among the most bureaucratic and inefficient in Europe, putting obstacles in the way of companies that want to develop plant and of local authorities that want to build infrastructure.

It can take companies months - years even - to get planning permission to build



Romano Prodi switching attention to the task ahead

factories. Local authorities face similar problems in trying to develop roads and facilities. It is little wonder that, faced with these problems, Italy makes the least use of any European Union state of EU structural funds. Or that some international companies think twice about investing in the country.

Realising this challenge, the Prodi administration has made a formidable attempt to cut red tape and clean up the state sector. It is carrying out a sweeping reform of the heavily over-regulated commercial sector, making it easier to open retail stores. It has developed a system of one-stop shops for companies seeking planning permission in the regions so that red tape can be dealt with swiftly. It is implementing a big devolution of powers from Rome to the regions to create more flexibility when planning at a local level. Many of these reforms are only just passing the legislative stage. The next few months will determine whether they are being effectively implemented.

The second main challenge faces the private sector. Here the concern is that specific sectors are deemed too uncompetitive compared to their EU counterparts. Banking is the biggest worry. Until recently Italy had nearly 1,000 banks, with the leading ones moulded around the Treasury in the state sector and Mediobanca in the private sector. But new alliances are being formed, among others, between San Paolo and IMI or between Mediobanca, Banca Commerciale and Assicurazioni Generali.

These mergers are a sign that the time is ripe for consolidation if they are to compete with their counterparts in the EU. But Mr Prodi has recently admitted that far more consolidation is needed.

GERMANY • by Peter Norman in Bonn

Waigel triumphs against the sceptics

By the time of the election in September, the victor's hands will be tied

Rarely in recent months has Theo Waigel, Germany's finance minister, looked so happy.

The news, released on February 27, that Germany's 1997 public deficit was only 2.7 per cent of gross domestic product and thus comfortably below the 3 per cent limit set in the 1992 Maastricht Treaty for economic and monetary union meant he had triumphed against the sceptics.

The minister was also unruffled by the increase in Germany's total public debt to 61.3 per cent of GDP in 1997 from 60.4 per cent in 1996. Although moving away from the Maastricht Treaty limit of 60 per cent of GDP, Mr Waigel was confident the debt figures would not stymie Germany's chances of helping to launch the single currency on schedule on January 1 next year.

The debt ratio had been swollen by about 12.9 percentage points through burdens inherited from former communist east Germany, he explained. Without this load and debt rescheduling for former communist countries and the transfer of state railway debts to the

Bonn government, Germany's overall debt would have been between 46 and 47 per cent of GDP.

But does Germany's apparent ability to meet the Maastricht criteria really mean it is fit for such a momentous change as Emu? The labour market data for January, released a week after the deficit and GDP figures, were a reminder of the structural challenges facing the country. For the second consecutive month, "headline" or seasonally unadjusted unemployment was a record 8.8m or 12.6 per cent of the working population.

Germany's structural problems are legion. A rigid labour market, a generous but costly social welfare net that generates high non-wage labour costs for employers, a complex and inequitable income tax system, excessive red tape and an underdeveloped service sector, coupled with the costs of unification, have created a nation that finds it difficult to adapt quickly to change.

True, last year saw a boom in German exports that generated the biggest visible trade surplus since unification in 1990. But exports have so far done little to enliven the depressed domestic economy where private consumption increased a miserly 0.2 per cent last year.

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use of its majority in the Bundesrat, the second chamber of parliament, to block government initiatives.

But while there has been some progress, notably within companies where more flexible working practices have been introduced in a bid to preserve jobs, many vital reforms are in abeyance. These include a planned overhaul of the tax system which fell victim to Bonn's legislative gridlock caused by the opposition Social Democratic party's

Times in which they urged

an "orderly postponement" of Emu because of the worsening of Europe's structural problems since 1991.

They pointed out that Germany and France - the driving forces of European integration - are not well prepared to cope with more rapid structural change and the stiffer competition in a monetary union". The professors stressed that German labour markets needed to become more flexible and called for more work on budgetary consolidation.

The German chambers of industry and commerce (DIHT) have identified the failure of tax reform as a brake on the economy. Others doubt whether Germany's pay-as-you-go pension system can be compatible with the long-term health of Emu, if as is certain, the ratio of pensioners to working people continues to grow.

According to Klaus-Dirk Henke, a professor of finance and economics at the technical university of Berlin, tax systems and social security systems will be increasingly important as determinants of competitiveness among Emu member states.

In these circumstances, the government of Helmut Kohl, the chancellor, is making a virtue of necessity. Instead of fretting about the relative lack of progress towards structural change in Germany, it has decided that

the euro must serve as a catalyst for reform. This is a politically risky strategy in a country where opinion polls continue to suggest that about two thirds of the electorate would prefer the D-Mark to the euro. It could have serious implications for the sustainability of a stable euro, in the event of a change of government to an SPD-led administration in September.

Although the SPD's policies have still to be finalised, Gerhard Schröder, the candidate for chancellor, has indicated that he will roll back some of the government's supply side reforms in the area of social policy and has outlined a far less radical tax reform than Mr Kohl.

By the time of the election, the main Emu decisions will be taken, tying the victor's hands to a considerable degree. But there could still be tensions because of Germany's structural deficiencies.

Reinhard Joachim, president of the state central bank in North Rhine-Westphalia and a member of the Bundesbank's decision-making central council, is a noted doubter on Emu. But his observation that "starting Emu on time will be child's play compared with the huge and continuing challenge of keeping the euro stable on a sustainable basis" has the ring of truth.

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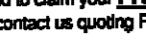
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Theo Waigel: unruffled by the increase in total public debt



Alan Verschoyle-King: no message from clients on what is wanted

FINANCIAL SECTOR • by George Graham

Flashes of subdued panic

Institutions are worried about the many details which still need to be clarified

With only nine months left until the arrival of the euro, bankers are starting to experience flashes of subdued panic at the sheer volume of work which remains to be done.

While almost every financial institution in Europe expresses public confidence that it will be ready in time to start doing business in the new currency on January 4 next year, many worry about the number of details which have not yet been determined. Many, too, harbour lingering doubts about the preparedness of their counterparties and of the payment systems they use.

"We won't be ready. We'll cope, but we won't be really ready," confessed the IT chief of one European investment bank.

The overarching issues, such as the principle that contracts should not be voided by the change from national currencies to the euro, have been resolved.

But a welter of detailed issues still needs careful attention.

What page on the Reuters or Bloomberg information networks will carry the new price references such as the Euribor and euro Libor interest rates? The issue is important because some derivative contracts stipulate the prices published on specific pages.

What arrangements will be observed for holidays? The Target euro payment system linking European central banks has already made it clear that it will close only on Christmas and New Year's Day, but the option remains open for national payment systems to close on other days, and there is still much uncertainty about trading holidays for national financial markets.

Perhaps most crucially, when exactly will the final announcement be made on the euro's exchange rates? Bilateral rates between the currencies that will join the single currency are to be announced in May, but it is already laid down that one euro will equal one ecu, and the ecu basket includes currencies which will not be joining in the first wave. That means that exchange rates of national currencies against the euro cannot be fixed until trading has ended for the year.

With several European markets shut on December 31 this year to provide more time for conversion, this could mean closing rates on December 30. It could also mean rates at lunchtime on December 31, when other markets will shut, or even the end of the trading day in New York, hours later.

The uncertainty adds to the pressure during the conversion weekend, which promises to be one of the longest many banks' back office and systems staff have ever lived through.

"It is clear that skiing is off next year," says David Clementi, deputy governor of the Bank of England.

Curiously, some of the more advanced IT systems may prove to be a handicap. Martin Wise, director of the Emu project at Merrill Lynch, the US investment bank, points out the already tight timetable for the conversion weekend is shortened still further for banks with global trading systems: they will not be able to start the conversion process until New York has closed on

December 31, and must be ready by the time Asian markets open on January 4, whereas a purely European system would have precious extra hours at either end.

"Ironically, those fragmented systems which most of us dream of replacing may turn out to be a competitive advantage," says Mr Wise.

Once the conversion is out of the way, the challenges posed to the financial sector by monetary union will have only begun. Bank treasury departments are still working with their clients to figure out how their demands for cash management and payment services will change in the euro zone.

Alan Verschoyle-King, of Bank of America, says that companies' views on the impact of the euro vary considerably. "There is no single message from clients about how they want their banks to react. Only in the last few months have we started seeing industry trends - for example, the transportation sector is more concerned with the underlying transactions where the energy sector is more concerned with cash balances, because they are dealing in such huge sums," he says.

Although several central banks would like Target to become the principal high value payments system for the euro, most banks are hedging their bets and signing up for a variety of different payment mechanisms.

Options include the updated version of the Euro Banking Association (EBA) ecu clearing system, which is cleared through the Bank for International Settlements in Basel but will move to the European Central Bank, as well as national systems such as the euro branch of Chaps, the high-value payments system in the UK.

This is partly because of uncertainty about whether all the national systems which are to feed into Target will function effectively - tests with the French real time gross settlement system have alarmed many payments specialists - but also because clients may have different requirements. Some may prefer a net end-of-day settlement system such as the EBA over Target, which offers the immediate certainty that a payment has arrived but is likely to cost more.

Indeed, Martin Leboutiz of Chase Manhattan's treasury solutions division points out that a payment from one French account to another could in future be routed through the bank's Frankfurt payments hub, rather than staying in the French clearing system.

"It blurs considerably the distinction between what is a cross-border and what is a domestic payment," Mr Leboutiz says.

Although banks have another three years to get ready for the full-scale introduction of the euro at the retail level, some lines are already being drawn in this sector, too.

Partly under pressure from the European Commission, which was worried consumers would revolt against the euro if they thought the conversion would cost them, banks have promised not to charge customers for changing their accounts into euros.

"We will certainly not take advantage of this changeover to the euro to rip off our customers," said Nikolaus Böhmke, secretary-general of the European Banking Federation, which has promised only to use the official conversion rates and not to charge except in rare cases where a "substantial service" is involved.

PROFILE Chase Manhattan

Helping hand for single currency

Almost as soon as it was clear that Emu was going ahead, Chase, the giant US bank, took two basic decisions. At the practical level, the bank would be fully prepared right across its global business for the arrival of the euro on January 1, 1999. At the strategic level, Chase would treat the new currency as an opportunity to try to steal a march over competitors.

For almost two years the bank has invested thousands of working hours in meeting those objectives. The eventual estimated cost is put at about \$75m. Chase set up a bankwide steering committee and an Emu project office which reported to Bruce Hannan, the head of the bank's Global Treasury Unit. Mr Hannan is a member of the bank's senior policy council, which reports to the board.

The man in day-to-day charge is Anthony Davies, the Emu project manager, based in London. Appointed in 1996, Mr Davies admitted that he approached the

myriad complexities and uncertainties of the task with some trepidation: "The start, to be honest, was a matter of getting to grips with the mountain of information and uncertainty that was out there."

It quickly became apparent that there was only one way of reducing the job to a human scale. Each product had to be disassembled to analyse the possible changes Emu might bring through the product's life-cycle "from price source to payments", in Mr Davies' words. The product - whether foreign exchange, a swap or a security - could then be reassembled to incorporate necessary changes across the bank's global business lines.

Discipline would be maintained by drawing up a common schedule for the whole bank.

The timetable called for a definition of the business changes by mid-1997, followed by identification of the functional requirements in the autumn and development of the vital

supporting systems by the end of last year. Coding was due to be completed by early 1998, and testing of the revised products and systems by their users within the bank will start soon. Integration testing - making sure all the components fit together - is scheduled for June and July. Full dress rehearsals are planned for November, leading up to the moment of truth - the "conversion weekend" of January 1-3, 1999.

Breaking down the products into their component parts was painstaking. Nigel Knight, product and project manager for the euro in Chase Treasury Solutions, a key part of the bank, said that in his area alone some 40 different products had to be analysed. Moreover, few bank products these days are "pure". Many are hybrids which touch on more than one of the bank's global business lines.

So Chase formed product groups which brought together experts from different backgrounds around the

bank. Mr Davies said: "You had to take a product out of its traditional home and create a multidisciplinary body to analyse it." The leaders of these groups also conferred with outside experts and customers.

Indeed, consultation with clients has been a theme of Chase's policy, partly to make sure that changes work and partly to keep an eye on the competition. Mr Knight said: "All our thinking throughout this process has been to see it as a strategic opportunity, not just a defensive need."

The bank identified two different types of change: mechanical and strategic. Mechanical changes covered items such as holiday dates, number of trading days, and re-denomination of currencies into euros. All systems had to cope with these adjustments.

Strategic issues were more closely related to the bank's goals. How might the market change? What did customers want? Where was there scope for new products? Could current product

prices be converted directly into euros, or would adjustments have to be made for different markets? One essential decision made on the vital Treasury Solutions side was to adopt a hub approach to clearing.

Instead of each of Chase's operations in Emu member countries dealing separately with local clearing systems, business would be funnelled through Frankfurt and processed at the bank's existing centre in Bournemouth.

After a while, however, Mr Davies said, a number of overarching issues began to emerge. These included continuity of contract when a product was re-denominated into euros, settlement instructions, price sources, and governing law. Such questions had to be addressed regardless of where a deal might arise in Chase's global network.

But substantial uncertainties remain. Mr Knight believes that customers might decide to change their settlement instructions after January 4, 1999, the first



Anthony Davies: the man in day-to-day charge

working day for the new currency. He said: "The world changes very dramatically on January 4, 1999, because you can't implement settlement instructions ahead of that."

The bank had no choice but to embrace the euro - and even, as a leading global institution, felt a duty to help the new currency into the world. But Chase will be sorely disappointed if its elaborate preparations do not also yield new business.

Michael Prest

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6 ECONOMIC AND MONETARY UNION

FISCAL POLICY • by Lionel Barber in Brussels

Harmony a sensitive issue

Tax policy is one of the last bastions of national sovereignty

Now that Emu is within reach, a familiar question arises: will the single currency lead to a harmonisation of fiscal policy?

Almost 10 years ago, a committee of central bank governors under the chairmanship of Jacques Delors, European Commission president, left the matter open. They preferred to agree on a blueprint to launch the euro rather than disagree over its likely consequences.

The politics of fiscal harmonisation or fiscal coordination are delicate. Tax policy is one of the last bastions of national sovereignty. All decisions must pass the unanimity rule in the EU, which is why progress in areas such as value added tax has been halting at best.

But once Emu becomes a reality, the link between the single currency and the single market will become more explicit. The competitive forces unleashed by Emu – notably price transparency across borders – will make all governments more sensitive to accusations that others are using unfair methods or policies to gain advantage. Tax regimes present inviting targets.

One of the more remarkable developments of the past 12 months is the way in which tax policy has crept to the top of the EU agenda. Governments and the European Commission have begun to anticipate the impact of the single currency, starting with a joint approach toward "tax poaching" or harmful tax competition.

The breakthrough came last December in the run-up to the EU summit in Luxembourg.

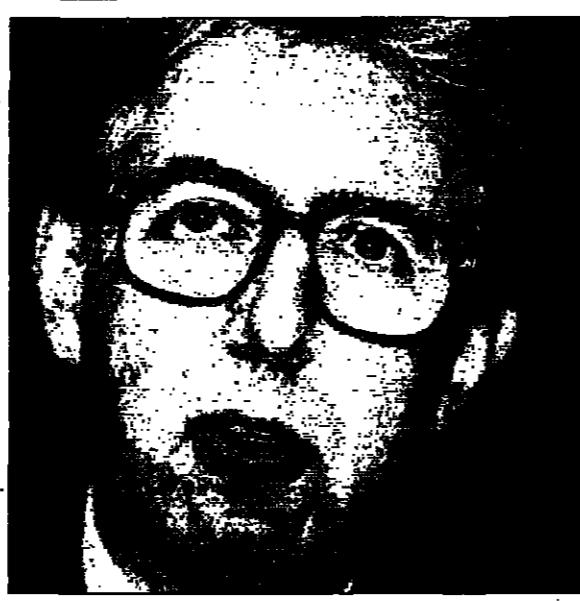
At the meeting, EU finance ministers agreed a voluntary code of conduct on business taxation; a commitment to consider a minimum withholding tax on non-residents' savings income; and an agreement to discuss a directive making it easier for companies to transfer interest and royalties across borders without the risk of double taxation.

The impact of the deal was softened by several unilateral declarations by member states. Ireland insisted on a five-year deadline for phasing out its 10 per cent tax rate for manufacturers which France and other countries insist is siphoning off investment. Luxembourg declared it would not accept the introduction of any EU-wide withholding tax unless it is balanced by legislation to enforce a minimum corporate tax regime – an argument rejected by Ireland and most likely other countries including the UK.

Despite these escape clauses, work on tax coordination is edging forward under the guidance of Mario Monti, the methodical and cerebral Italian commissioner responsible for the single market. This month, he unveiled proposals for a directive eliminating withholding taxes on payment of interest and royalties between associated companies.

Mr Monti is also contemplating the content of the coming directive on withholding tax on foreign savings. The latter is based on a French initiative which seeks to deal with the conflicting demands of banking secrecy and the need to exchange information among EU tax authorities.

The approach would allow, say, a French saver to pay withholding tax in Luxembourg, most likely set at a stiff level to compensate for the privilege of remaining



Mario Monti: working on tax co-ordination

anonymous. Alternatively, the French saver could pay tax direct to the French authorities, thus removing all doubts about tax avoidance. It looks like a neat solution, but important practical questions remain on who gets what share of the revenue.

Mr Monti hopes to reach a broad agreement by the end of the British presidency at the end of June. He believes that momentum should pick up over the next 18 months because the three governments in the EU chair – Austria, Germany and Finland – are nominally committed to advancing tax coordination. More important, all are certain to participate in monetary union.

Finally, EU-wide directives seeking to limit predatory tax competition will be ineffective unless they are extended to other OECD countries, notably Switzerland. Without a common tax regime, money would simply flow out of the member states into safer havens such as Geneva or Zurich. In this sense, the announcement by the British government that it was reviewing the status of the Channel Islands could be a straw in the wind.

In a world of global markets, instant communications, and volatile money, European governments are discovering that greater fiscal co-operation – if not actual harmonisation – is one step toward recapturing sovereignty. We can expect further progress, however halting.

MONETARY POLICY • by Wolfgang Münchau

Confused target practice

The choice of monetary policy instrument is one of the many uncertainties

One of the many uncertainties about economic and monetary union is the choice of monetary policy instrument.

Two differing methods are on offer: monetary targeting and inflation targeting.

Under monetary targeting, the central bank targets a monetary aggregate, usually a measure of broad money supply such as M3, which includes cash, current accounts and sight deposits. Monetary targeting is based on the monetarist theory that growth in money causes inflation with a time lag.

Unfortunately, monetary targeting has failed in some countries, notably the US and the UK, largely because deregulated capital markets played havoc with the money variables. As a result, monetary aggregates such as M3 and M4 have proved far less reliable in the US and the UK than they did in Germany, where there was significantly less activity in the short end of the money market.

This gave rise to the birth of inflation targeting, where the central bank tries to achieve a pin-point landing on a chosen rate of inflation, which can be set by the government. This system operates in the UK, in Sweden, Finland, and in New Zealand.

With the UK and Sweden not taking part in the first wave of Emu, it appeared at one point that the ECB would adopt the time-honoured German system. The European Monetary Institute, the ECB's forerunner, has left the choice between the two open. German central bankers have been drumming up support for years in favour of monetary targeting. It is no doubt the system of choice among elderly central bankers. But time has moved on.

The trouble is that the neat relationships between money supply and the rate of inflation may break down under a regime change, such as Emu. This particular phenomenon is known as Goodhart's Law, named after Charles Goodhart, professor of finance at the London School of Economics, who discovered in the 1980s that the relationship between money supply and inflation breaks down as soon as one adopts the money supply as a target variable.

Goodhart's law is a special



Eddie George: Emu imposes a one-sized-fits-all policy



Charles Goodhart: his law may highlight a pitfall for Emu

able rise in unemployment, or an unacceptable rise in inflation, would seriously impair the credibility of the ECB, let alone its popularity.

Proponents of monetary targeting have argued that the pooled money demand equations across the EU countries produce a relatively stable pattern. Some point to statistics which demonstrate that M3, the Bundesbank's preferred money variable, is far more stable across the EU than in Germany itself. This observation has led several commentators to proclaim that monetary targeting may be safe.

With his keen sense of paradox, Prof Goodhart has debunked this observation. It is based on an econometric error, he says. One can pool the money data of any group of nations and observe a statistically more stable pattern. A near equivalent would be a stock market portfolio of 10 stocks, which would probably show significantly less volatility than any one of the stocks.

Fortunately, Europe's top central bankers are aware of the pitfalls that may result from the pending regime change. Otmar Issing, one of the most respected members of the Bundesbank's executive committee, acknowledged recently: "Because of the great uncertainties at the beginning of economic and monetary union, a monetary target should be complemented by – as I would call it – an inflation forecast."

Hervé Hannoun, deputy governor of the Bank of France, told a Financial Times conference last autumn that there is "no safe guidance for the starting period of Emu in so far as the move constitutes a change of regime which might lead to breakdowns in empirical relationships".

EU central bankers are concerned about having to rely on a single variable. Any policy action that might result either in an unacceptable

say that interest rate decisions are ultimately judgement calls, based on instinct as much as analysis.

While this is probably true, it could upset the relationship between the central bank and financial markets if driven to extremes. The great advantage of monetary targeting has been the transparency of the process. If money expands at too rapid a rate, the markets tend to expect a tightening in policy unless convincing reasons suggested otherwise.

Inflation targeting, by contrast, requires more analysis and explanation. Because it is a more technical process involving a good deal more forecasting, it is favoured by many academic economists, who tend to belittle monetary targeting as a form of voodoo. The supporters of monetary targeting often presented their case with such zeal that they gave the impression of advocating a system of belief rather than a system of economic policy.

Where will this confusion lead? Probably to a discretionary approach initially, to be followed by a system of inflation targeting. The system has to be invented from scratch, and it also has to work for 11 and soon 15 diverse economies. It is inconceivable that a single crude measure of money supply, such as M3, will have much information value.

As researchers in the International Monetary Fund recently found: the transmission mechanism between monetary policy and the real economy of growth and jobs still varies significantly across the EU.

Economists disagree on many things, but they tend to disagree more on monetary policy. As a result this issue will remain unresolved for some time.

Central bankers often say that it does not matter. They

have a one-size-fits-all policy variable.

EXCHANGE RATE POLICY • by Simon Kuper

Euro likely to fluctuate

The exchange rate will not be the top priority of policymakers – inflation will

The foreign exchange market often asks itself whether the euro will be a hard or a soft currency. But perhaps it should ask first whether policymakers will care either way. "Euroland", made up of the 11 countries expected to introduce the euro, will be a fairly closed economy. Only about 10 per cent of its gross domestic product will consist of trade with countries using other currencies. For comparison, about 35 per cent of German trade is now cross-border.

In other words, however wildly the euro fluctuates against the dollar, it will have only a modest impact on the European economy. Of course, policymakers would prefer a tame currency. At times they may try to talk the euro up or down. But the exchange rate will not be their top priority – inflation will.

For the treaty of Maastricht specifies that the main aim of the future European Central Bank will be "price stability". The treaty adds that the bank should support the economic policies of Euroland, but only if that aim does not conflict with price stability.

So even if European central bankers wanted to manage the euro's exchange rate, they would have little power to alter interest rates for that purpose.

Nor is there much risk of politicians leaning on them to move the currency. Another Maastricht clause says that the bank should not "take instructions from Community institutions or bodies, from any government of a member state or



Martin Brookes and Jim O'Neill: 'On paper the ECB is the most independent central bank in the industrialised world'

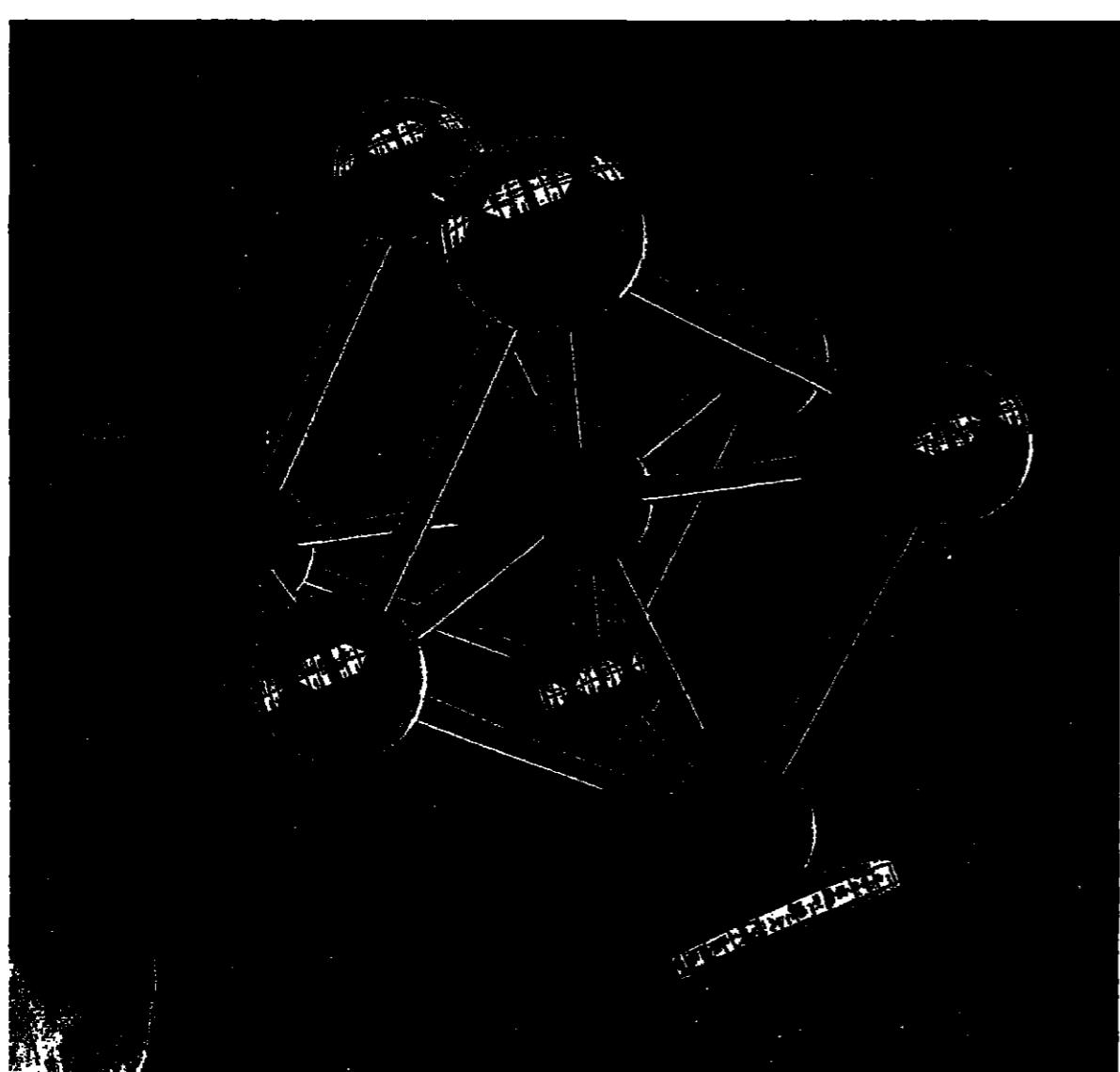
faster than the US. Emu should start under a prosperous sign.

As European growth accelerates, Euroland is likely to import more. For the moment, however, the 11 states are running a joint current account surplus worth about 1.5 per cent of their GDP a year. This means that in net terms, companies across the world are having to convert dollars into euros to pay their trading debts. That should spur the new currency higher.

Furthermore, most economists agree that the euro will eventually at least come to share the dollar's status as the world's reserve currency. Today, central banks hold about 60 per cent of their \$1,400bn in foreign exchange reserves in dollars, compared with just 20 per cent in European currencies. When the euro becomes the currency of the world's largest economic bloc, the banks are likely to want to hold more of it. Investors may follow suit. Fred Bergsten, director of the Institute for International Economics in Washington, predicts that \$500bn to \$1,000bn of global portfolios could flow into the euro.

That should more than offset any early flight out of the euro from investors waiting for the currency to prove its worth.

Avinash Persaud, head of foreign exchange research at J.P. Morgan in Europe, has noticed yet another euro-friendly force: the US expects to balance its budget this year. At first glance that looks like a boon for the dollar. However, if Washington does stop borrowing, the US will redeem more Treasury bonds than it issues. That will help the euro, says Mr Persaud, because less foreign money will be converted into dollars to buy Treasuries.



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EMPLOYMENT • by Robert Taylor

Growth in work force predicted

In welcoming Emu, trade unions also recognise some adverse effects on employment

The arrival of European economic and monetary union ought to provide a strong stimulus for an acceleration in the convergence of Europe's diverse labour markets. It seems likely to encourage greater worker mobility as well as the harmonisation of basic labour standards. It ought to produce more realism in wage setting, stimulate higher productivity growth and help to contain and even reduce overall labour costs. In addition, the stability and cohesion expected from the creation of a common currency should help to encourage employment growth.

These arguments are not just held by many employers and economists in the EU but also, perhaps more surprisingly, by the trade unions. "Investors and traders are more likely to respond to reduced uncertainty with Emu by increasing their cross-border activities," argues David Foden at the European Trade Union Institute (ETUI). He also points out that trade unions have never favoured a return to the days of high inflation.

But this does not mean they are sanguine about the original Maastricht convergence criteria for economic and monetary union. Indeed, the trade unions recognise the adverse effects on employment of the transition to Emu. As Giuseppe Fajertag, economist at the ETUI, explained recently: "Most member states would not have been able to qualify for the final stage of Emu unless they could achieve further cuts and savings in public expenditure. This further squeeze generally trans-

lates into slower economic growth, cuts to welfare payments, further reductions in disposable income and a negative impact on jobs."

Understandably, the trade unions are not likely to relish a prolonged period of deflation based on continuing austere budgetary restraints if this leads to the creation of more mass unemployment. But Emu's likely impact on employment remains a subject of wide conjecture.

Julian Callow, economist at Dresdner Kleinwort Benson, believes fixed exchange rates and interest rates averaging at a European level will encourage investment in low labour cost economies inside the Emu. "Stronger direct investment flows will bid up wages in France, Italy and especially Spain and Portugal while workers in high labour cost countries will continue to be obliged to accept low wage deals in return for job preservation," he argues. But he also foresees that low interest rates in southern Europe will strengthen wage push, consumption and investment growth.

There is also a wide consensus that regards Emu as a necessary external discipline that will increase the pressures for greater flexibility in European labour markets. It will be much harder for uncompetitive industries to maintain high levels of social regulation that impede employment creation but also over-compensate workers at the expense of those without a job.

The EU's new approach to work reorganisation with its emphasis on making workers more employable through increased education and training, and encouraging small and medium-sized enterprises with tax incentives are in line with what is seen as a necessary agenda if Emu is going to become



Julian Callow: Investment will bid up wages in some countries

more competitive on global markets.

There are already some signs of moves towards what is being called a "European wage area" across borders. The most significant development has been in Belgium where a new law reforming the country's pay bargaining system to "safeguard competitiveness and promote employment" has indicated wage deals should be negotiated up to a maximum based on the average pay increase in Belgium's three main trading partners – Germany, France and the Netherlands.

Recently, tentative bargaining has taken place linking the German metal workers in North Rhine-Westphalia with their colleagues in Holland on a common approach.

Otto Jacobi, head of the German think tank – Laboratorium Europa – believes the "contours of a European pay area" are emerging which are "unnoticed and unco-ordinated" and he points to the growth of national collective agreements that are revealing a "surprisingly high degree of convergence in pay and working hours". But this does not mean Emu will lead inexorably to the creation of a fully-fledged European-wide industrial relations system.

Nor is there much sign the move to Emu is producing a highly centralised initiative on modernising labour markets and reducing unemployment. Jacques Delors' famous 1993 EU white paper on employment, growth and competitiveness sought to develop a strong commitment on jobs expansion but it did not lead to any substantial development of an EU agenda. It is true that the 1997 Amsterdam treaty requires EU member states to develop a common employment policy but this has to respect the subsidiarity principle, placing the main responsibility on member governments for implementing their own employment action plans that will be monitored by Brussels.

But the move to Emu is raising a more fundamental question about the future shape of Europe. Can it reform but maintain its social market model or does it have to Americanise its labour market structures by deregulating them to remain competitive? Many employers may regard Emu as an opportunity to restore their lost power by weakening the European consensual approach to employment developed over the past 50 years. For their part, trade unions can be expected to resist such an approach. The outcome of what promises to be a fundamental public debate remains unclear. But one thing is clear: the arrival of Emu will have a profound impact on employment and labour markets.

Although weak at EU level, the two sides wish to gain legitimacy in the power structure

The so-called social partners (the European Trade Union Confederation and the two European employer organisations Unice and Ceep) would like to play an increasingly important role in decision-making after the creation of economic and monetary union, at least in the development of industrial relations and employment strategies.

Their desire to gain an accepted legitimacy in the changing EU power structure reflects a widespread concern on both sides of industry that the arrival of Emu will strengthen the domination of the financial sector through co-ordinated monetary policies and the harmonisation of member state budgets.

Although the social partners for the moment may lack a common agenda on how to pursue their mutual interests, recent events suggest this may still prove possible.

The two sides appear to have accepted the value of bargaining at EU level on measures that provide a minimum framework of legal workplace rights.

Agreements have been reached recently through this social dialogue approach on unpaid parental leave and atypical work. Many employers may have misgivings about negotiating with trade unions on such issues but they prefer their direct involvement in the process than leaving it to member state governments to decide what should be done through the establishment of legally-enforced directives.

The social partners at EU level remain weak organisations, dependent on the willingness of their affiliate nation-state based members to allow them the freedom to increase their power and influence.

But former EU president Jacques Delors has warned of the dangers if Emu's success is either ignored or given a low priority.

Jacques Delors: warned of the dangers if the social dimension is either ignored or given a low priority

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2 SWITZERLAND

POLITICS • by Clive Church

Trusted old system under pressure

Direct democracy has not spared the Swiss from the malaise found in other states

In 1998 Switzerland celebrates the 150th anniversary of its constitution and the birth of a particular, but not well-known, political system which is sometimes held up as a model that may be adapted to deal with Europe's diverse political problems.

The Swiss political system involves intensive consultation, advanced proportional representation and direct democracy. The signatures of only 50,000 of Switzerland's 6m citizens are needed for a referendum challenging government legislation and 100,000 signatures can force a nationwide vote on constitutional changes.

Not all these elements were present in 1848. In fact, Switzerland did not become a real federation until 1874 and direct democracy did not take root until the end of the century.

Proportional representation came after the first world war and consultation and full representation of political forces in government did not arrive until after the second world war.

All these elements of the Swiss system are important not just for the smooth running of the country's affairs but also for the way that the Swiss define themselves. Acceptance of the dominant roles of grass roots rights and consensus has given Switzerland the unity denied it by its linguistic and religious diversity. Swiss citizens are far more the sovereign people than citizens of other European countries.

Yet as it approaches the millennium the Swiss system is under pressure. Direct democracy has not spared the country from the political malaise found in other European states. And often

it is direct democracy that prevents the country from adapting in the way many feel is needed.

Swiss politics has become more personalised. What counts is performance on Swiss TV current affairs programmes, such as Friday night's *Arena*. Political debate has become much more shrill.

The fact that the country

now faces highly divisive issues, notably Europe, has intensified the change in tone. Such issues are less susceptible to the normal consensual compromise of Swiss politics, so that referenda are becoming more divisive and less a means of holding the country together.

The revelation in the 1980s that the government was keeping secret – and highly doubtful – files on a sixth of its population and seven years of economic stagnation in the 1990s, has taken a toll on public confidence in Switzerland's political elite.

Populist politicians, such as Christoph Blocher, are now challenging the way the system is run and his Swiss People's party is taking votes away from mainstream parties, particularly the Christian Democrats.

Overcoming Switzerland's increasing political polarisation is proving hard. The government is tiny, has limited powers and the rules for selecting its members can exclude the most able.

In addition, conservative and populist groups can check the government by exploiting the cumbersome constitutive processes or collecting the small number of signatures needed to block a new law.

The government was humiliated in 1995 when its plans to join the European Economic Area were rejected, and recent efforts to liberalise labour laws and tighten asylum policy have suffered a similar fate.

Even the attempt to

revamp the constitution, which has become encrusted with detailed policy provisions since its last overhaul in 1874, has run into trouble and looks likely to deliver less than had been hoped. Certainly, it is unlikely to lead to a rationalisation of the system of direct democracy. The Swiss are cautious; they may admit to problems but find it hard to agree remedies.

So structural change is blocked and the government avoids antagonising the opposition by refraining from giving clear leadership on sensitive issues. Such stasis undermines suggestions that the European Union could do worse than remodel itself on Swiss federal lines.

The Swiss have shown that federalism does not have to be centralising but it has grown from the bottom up over a long period, which is not the case in the EU. Meanwhile, introducing Swiss-style direct democracy as an answer to the growing alienation in the EU could be far too divisive without grafting on the political culture which holds Switzerland together.

Paradoxically, although the EU is unlikely to adopt Switzerland's political model, it appears to be adopting many of the attributes of the pre-1798 Swiss political system.

It shares the same strange constitutional framework with a myriad of treaties and no single charter. This may be anathema to the Swiss as they celebrate the overthrow of the old system, whether in 1798 or 1848, but the old Confederacy did last for several hundred years and prevented the country falling apart when it was more divided than it is today. There may well be a lesson here for the EU.

* Jean Monnet Professor of European Studies, University of Kent

PROFILE

Pascal Couchepin, the new Swiss economy minister

Pascal Couchepin, the 55-year-old lawyer who takes over the Swiss economics ministry from the ailing Jean-Pascal Delamuraz on April 1, has a difficult task ahead of him.

His mixed bag of responsibilities includes some of Switzerland's most sensitive dossier: employment, at a time when record levels of joblessness are the number one concern of the Swiss public; agricultural policy.

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The Swiss have shown

now in the midst of painful reforms; and research where a passionate debate is underway ahead of a national vote in June called by opponents of genetic engineering, which could bring an abrupt halt to Switzerland's world-class genetic research effort.

While monetary policy is in the hands of the central bank and fiscal policy rests with the finance ministry, Mr Couchepin's department runs the government's programme of economic

"revitalisation" which aims to boost competitiveness.

This programme is seen as critical in redressing Switzerland's position at the bottom of the OECD growth league and compensating for the disadvantages of being outside the single market.

Like Mr Delamuraz who resigned on health grounds, Mr Couchepin is a pro-European, from the minority French-speaking community and from the Radical Democrats.

Where Mr Delamuraz is convivial and plain-speaking, Mr Couchepin is austere, aloof and ambitious.

Scion of a political family, Mr Couchepin has been a member of parliament since 1979 and mayor of the town of Martigny in the Valais canton since 1994, for most of that time doubling as national party chairman. His policies are centrist, veering to the right on economic matters where he

Couchepin: ambitious

has taken a strong pro-business stance but to the left on a number of social and welfare issues.

Frances Williams

ECONOMY • by Frances Williams

On the road to recovery

The short-term future will be determined by the health of trading partners

After seven years of stagnation the Swiss economy appears at last to be on the road to recovery – but the upturn still looks fragile and capable of being reversed.

Even the most optimistic forecasters are predicting no more than modest growth this year and next of 1.5-2.5 per cent, still well behind Switzerland's European neighbours.

Others fear that Switzerland's export-led expansion will falter later this year under the combined impact of a stronger exchange rate in the run-up to the euro in 1999 and the fall-out from the Asian financial crisis.

On the positive side, the Swiss economy grew by 2 per cent in real terms between the fourth quarters of 1996 and 1997, the fastest annual rate since 1990, though average growth in 1997 was just 0.5 per cent.

Exports of goods and services surged last year by more than 8 per cent by volume, helped by a weaker franc and economic recovery in Europe which takes over 80 per cent of Switzerland's merchandise exports and accounts for most of

its foreign tourists. The annual inflation rate, which touched zero in January, averaged only 0.5 per cent in 1997, the lowest for nearly 40 years, and domestic price and wage pressures are weak.

Meanwhile, the Swiss National Bank, which is predicting inflation of 1 per cent or less in 1998, has pledged to continue its accommodating monetary policy to keep economic growth on track. In particular, it is determined to prevent undue appreciation of the Swiss franc's value to remain below the 1996-98 average. It also sees faster growth in Europe as compensating Swiss exporters for weaker demand from emerging markets which account for only a quarter of Swiss exports.

Others are less sure. Though Swiss exports to Asian developing countries are only 8 per cent of the total, Alois Bischofberger, chief economist at Credit Suisse, believes the impact of the east Asian crisis will show up increasingly in the second half of the year as the repercussions are felt on world and European growth.

Nevertheless, the franc's value against continental European currencies, especially the Deutsche Mark, has been creeping up, despite the unanimous view of analysts that the fundamentals point to a depreciation in the longer term.

Uncertainties surrounding creation of the European Union's single currency, the

euro, in 1999, as well as the financial turmoil in east Asia and elsewhere have revived the franc's safe-haven role. Switzerland's booming stock market has also attracted sizeable foreign portfolio investment.

The government's advisory economic affairs commission, which is predicting 1.75 per cent growth this year, says despite the recent appreciation it expects the franc's value to remain below the 1996-98 average. It also sees faster growth in Europe as compensating Swiss exporters for weaker demand from emerging markets which account for only a quarter of Swiss exports.

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Meanwhile, domestic demand shows few signs of revival. Real household incomes have scarcely budged over the 1990s and job insecurity continues to dampen consumer confidence in the wake of the UBS/SBC bank merger and other restructuring.

Public debt, though well within the Maastricht ceiling of 60 per cent of GDP, is projected to reach SFr202bn by the end of this year, double the 1990 level. Though Switzerland is ineligible for EMU because it is not an EU member, keeping its economy in line with its EU neighbours is an important Swiss policy objective.

Depressed by the dismal scenario for jobs, the Swiss trade union movement is pressing for measures to speed growth through a Swiss franc depreciation and has launched a referendum campaign to cut the average working week to 36 hours in line with the French.

Employers and the business establishment by contrast emphasise the need for more deregulation and greater labour market flexibility. But the uncomfortable fact is that, whatever Switzerland does on its own account, the short-term future will be largely determined by it by the health of its trading partners and the unpredictable currency desires of foreign investors.

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NEUTRALITY • by Tony Barber

A change as big as moving mountains

A policy pursued by Switzerland since 1945 may no longer be appropriate

A Swiss diplomat searched recently for a metaphor to explain how important Switzerland's neutrality in international affairs has been to defining the national self-image. "Neutrality has been our Matterhorn," he said.

If so, it is a mountain that is being shaken as never before by the tectonic changes in Switzerland's geopolitical landscape: the end of the Cold War, the Soviet Union's collapse, and the European Union's drive to closer political and economic integration.

In the view of many Swiss politicians and foreign policy experts, the policy of strict neutrality that Switzerland pursued to such considerable effect after 1945 is no longer appropriate. The country is self-evidently part of the western world of free-market democracies and has little to lose and more to gain from eventual membership of the EU and the United Nations.

Switzerland's president, Flavio Cotti, said in an FT interview: "Foreign policy in today's world is made within multilateral networks. The time for beautiful, bilateral visits for laughing diplomats is past. It's all multilateral now. A country outside is isolated."

The need for change was outlined with particular force in a report published in February by a government committee of experts headed by Edouard Brunner, a retired Swiss diplomat. The report, which will form the basis for a national debate about Switzerland's future foreign policy, observed that the decision to keep out of the Second World War had led to a deep conviction among the Swiss people that "Switzerland owes its salvation to its seclusion and its past."

refusal to become involved in the affairs of others".

Such attitudes continued to prevail during the Cold War, when Switzerland went out of its way to avoid taking sides in the East-West ideological and military confrontation. However, Switzerland was more in those days than just a convenient venue for US-Soviet discussions about nuclear arms control and regional conflicts such as the 1979-89 war in Afghanistan.

As the Soviet Union itself privately recognised, Switzerland was for all practical purposes a country integrated into the western economy and sharing the same political values as the western democracies.

In case of war, Switzerland would have benefited from the protection of its neighbours and potential allies, especially from the western "nuclear umbrella", the Brunner report says.

Today we must recognise that the situation has changed once more. Faced with more diffuse and manifold threats, we must accept the hypothesis that threats (such as blackmail by terrorists) could be targeted specifically against our country - without necessarily threatening our neighbours at the same time. We would then be isolated, due to a lack of institutional links with our neighbours, who would in no way be obliged to help us."

Switzerland has already taken some small but significant steps to modernising and reinterpreting its doctrine of neutrality. It has joined Nato's Partnership for Peace programme, although unlike other PFP countries such as Romania and Slovenia it has no intention of applying for full membership of the US-led military alliance.

The Swiss broke fresh ground in 1995 when they allowed Nato forces travelling to Bosnia to have air and ground transit rights through Switzerland. Four

INTERVIEW

President Flavio Cotti tells William Hall about Switzerland's 150th anniversary celebrations

Growing desire to join the club

Switzerland celebrated its 700th birthday in 1991 and now it is celebrating the 150th anniversary of its constitution. What is their significance?

In 1991 we celebrated Switzerland generally with its myths and its legendary traditions. This time the festivities will be more sober because they have to do with the constitution and our political system which was introduced in 1848. At the time Switzerland was the most revolutionary country in Europe and its democratic system was envied by others. However, our political structures have not adjusted as quickly as society has changed and this is causing us problems.

Why are the Swiss so unenthusiastic about joining Europe?

Traditional Swiss reluctance towards the EU has a historic background: our neutrality and our not getting involved in international political alliances is deeply-rooted. This has enabled us in difficult times to remain independent and autonomous. It also contributed to keeping us out of war. But Europe has evolved and even in Switzerland more and more people feel that the major developments are fostered by the EU and that we would be better off being there and taking part in the decision-making.

If Switzerland finalises its bilateral negotiations with the EU, what will still be missing?

The bilateral agreements will settle economic issues between Switzerland and the EU. But full involvement in

the decision-making process will still be missing. However, we are part of Europe. We speak the languages of three major EU countries and share much of their culture. The EU is deciding on very important problems which have enormous influence on our welfare. But we cannot participate in the decision-making.

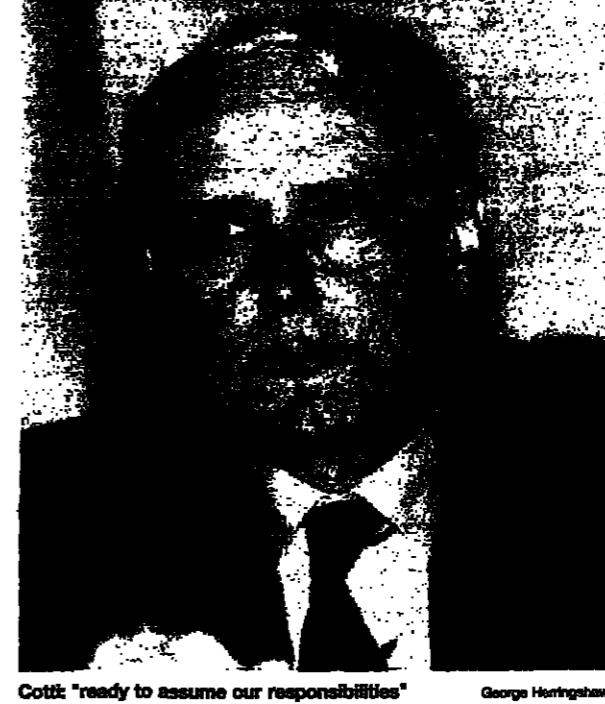
How is Switzerland's policy of neutrality changing?

In 1995 we granted international peace forces joining IFOR in ex-Yugoslavia the right to fly over and travel through our territory. This would have been unthinkable until recently. Switzerland also took part on its own in enforcing the UN economic sanctions since the 1991 Gulf war. Our recent chairmanship of the OSCE also symbolises our willingness to have a more open foreign policy. But we continue to share the fundamental legal elements of neutrality. One of the rules is that we are not to commit ourselves to any possible form of involvement in war, even in peacetime. This means that we have no intention to join any alliances like Nato.

Should Switzerland join the EU, as is the clear wish of the political and foreign policy establishment, then Swiss neutrality would surely come into eventual question. "In the long term, co-operation may lead us to abandon neutrality in its current form," the Brunner report says.

Switzerland originally adopted neutrality in 1815 under the influence of the major European powers. Later, between the Franco-Prussian war of 1870-71 and the First World War, neutrality was the best way of staying out of trouble and maintaining the internal cohesion of the country, divided into German- and French-speakers.

Now, however, the world is different. "Neutrality must under no circumstances prevent engagements necessary for our security and dignity as a responsible state," the Brunner report says.



Cotti: "ready to assume our responsibilities"

autonomy. But we also have weaknesses. For a long time we were saved from every war and proudly believed we were a "Sonderfall", or special case. But the fact is that we share similar problems with other countries, which we can only solve together as part of the international community.

Do you think that the Swiss president should serve longer than a year, and be given more powers to deal with Switzerland's problems?

The president is primus inter pares and does not have any more power than the other members of the seven-strong Federal Council. Decisions have to be taken by all seven together. The president should be granted greater power, which is more important than extending the duration of his term. But the difficulty resides in the fact that the collegial system must be preserved.

Your predecessor, Arnold Koller, launched the idea of a SFr70m "Solidarity fund" as a humanitarian gesture. When will it start operating?

We are in a period of intensive consultation with all interested organisations. That should be finished by the end of 1998. Then will come the debates in committees and in parliament with possibly a popular vote at the end. The rather complicated procedure prevents us from setting a calendar. There has been a lot of opposition but I am confident that if we submit an accurate and sound proposal, the Swiss people will accept it.

INTERVIEW

KOFI BLOCH

Mixing morality and chocolate

As the chairman of a medium-sized Swiss chocolate company, Kofi Bloch seems an unlikely target for hate mail. Generous, thoughtful and mild of manner, he has nothing in his character to suggest why he should be selected for such abuse, except perhaps those very qualities of tolerance and humanity which he most stoutly defends.

But as the president of the Swiss Federation of Jewish Communities since 1992, and as the head of a Swiss humanitarian fund for needy victims of the Holocaust since last year, Mr Bloch, 67, is a public figure. He is the representative of Switzerland's tiny Jewish community, numbering 18,000 people.

More importantly, he is a living symbol of the darkest spot on his country's conscience: its wartime financial and commercial dealings with Nazi Germany, and its treatment of Jewish refugees seeking shelter from genocidal persecution.

"I got hate mail for the first time in 1996, from anti-Semites. Most aren't signed. They feel that the general climate is such that they can come out," he says. "There is a deterioration in relations between the Swiss and their fellow Swiss-Jewish citizens. I get letters saying, 'I shall no longer eat your chocolate'. But my view is that they are pushing themselves if they deny themselves the chance to eat my chocolate."

Mr Bloch is at pains to stress his belief that, compared to the Jewish experience in other European countries, the position of Jews in Swiss society has been remarkably secure in the modern era. "Swiss anti-Semitism has not been violent in the last 150 years, except for our murder in 1942. His name was Bloch, so I remember him well."

Yet he contends that, until the recent uproar over Switzerland's wartime



Bloch: an unlikely target

turnover is about SFr40m. But Mr Bloch is just as busy these days with the Holocaust fund, which arranges for money to go to needy victims of the Nazi terror, both Jews and non-Jews. "Eastern European countries are our priority. These are old people living on very small pensions."

The fund has SFr275m available for distribution and has already made grants in Hungary and Latvia. About 20,000 Hungarian Jews are receiving SFr12m in total. To be identified as needy, a recipient must live below the poverty line, a determination that is made by other humanitarian organisations with which Mr Bloch's fund has established contact.

Mr Bloch thinks that the national self-examination prompted by the re-opening of wartime issues will eventually benefit Switzerland. "If the Swiss start to say, 'We weren't worse than others', then they imply that they weren't better than others, either. And that changes the picture, because many Swiss had thought that they had been better."

"But if we are not better or worse, shouldn't we finally join the world, where others are not better or worse? That would take us out of our splendid isolation. And that would mean that we would have learnt something. It would take us out of our moral crisis."

Twenty years from now, we will be so glad that we have had this discussion, this crisis."

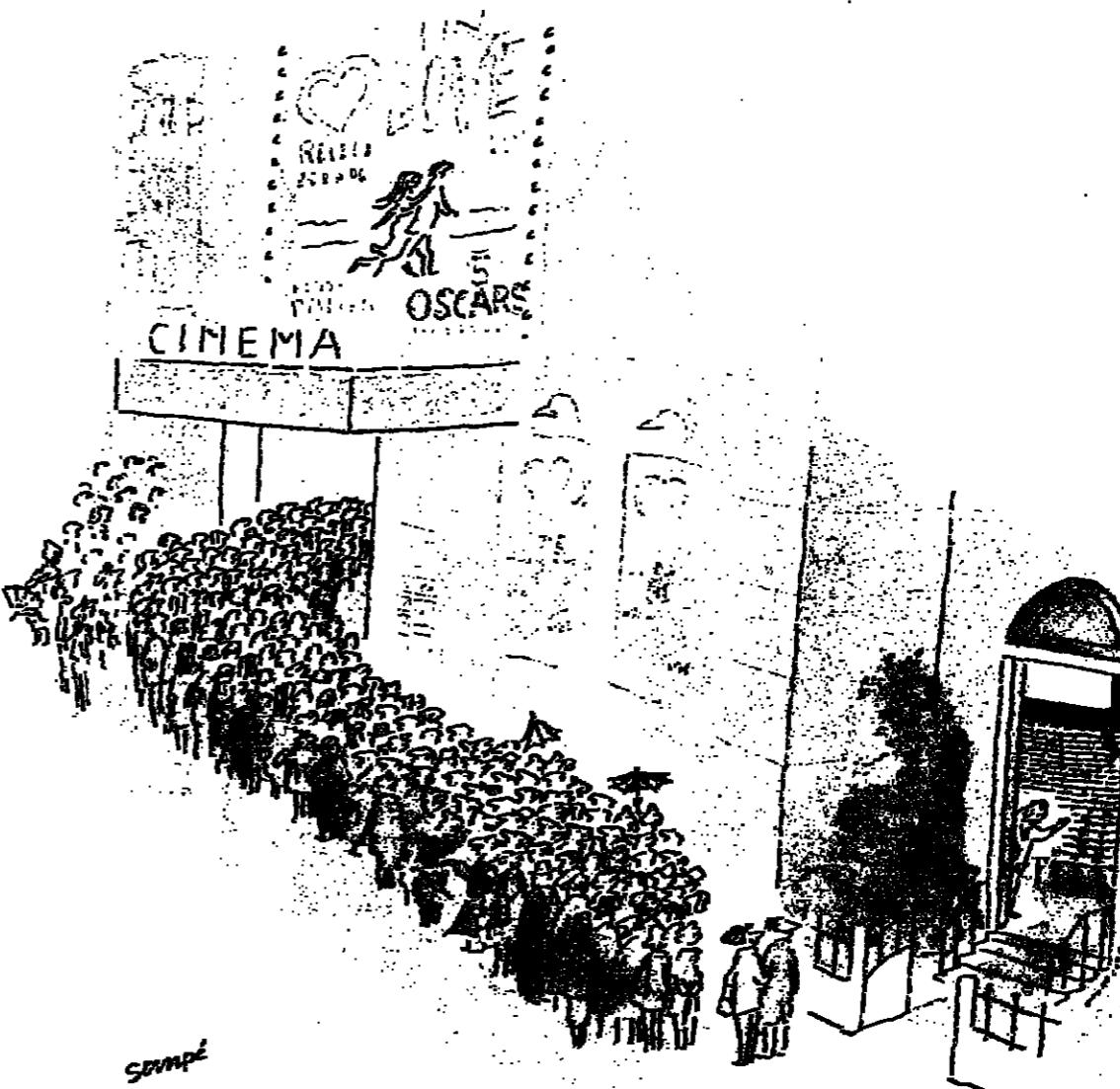
Illustrating his point, Mr Bloch recalled a recent meeting at which a Swiss banker, born long after the second world war, complained that it seemed unfair for the world to judge him and his generation for misdeeds committed during the war or in the first post-war decades. Mr Bloch told him: "Now you know what it's like to be a Jew."

Tony Barber

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4 SWITZERLAND

BANKING • by William Hall

'Big two' likely to move in opposite directions

The centre of gravity is swinging towards New York and London

As long as anyone can remember, people have always talked about the "big three" Swiss banks - UBS, Credit Suisse and Swiss Bank Corporation. But within the next few months the "big three" will shrink down to the "big two" following Swiss Bank Corporation's merger into an enlarged UBS.

The new bank will be one of the world's top five in terms of market capitalisation and the merger is the most dramatic of a series of moves which are transforming not only the face of Swiss banking, but also the jobs-for-life culture. Swiss bankers, once regarded as among the world's most conservative folk, have started taking the sorts of strategic bets on the future of their institutions which would have been unthinkable 10 years ago.

Credit Suisse started the ball rolling in July 1996 by announcing that it was going to cut the size of its loss-making Swiss retail network by around a third and shed 15 per cent of its domestic workforce. It also did something very "un-Swiss". It dumped Josef Ackermann, its respected chief executive-in-waiting, and hired Lukas Mühlmann, an ex-McKinsey management consultant, to lead Switzerland's oldest big bank into the next millennium.

Over the next few months, SBC and UBS announced Switzerland's leading banks - 1996

Bank	headquarters	assets	staff
Credit Suisse	Zurich	524	34,821
UBS	Zurich	437	29,153
Swiss Bank	Corp. Basle	360	27,490
Zurich Kantonalbank	Zurich	57	3,780
Raiffeisen	St. Gallen	57	3,693
Banque Cantonale Vaudoise	Lausanne	33	2,340
St. Galler Kantonalbank	St. Gallen	19	825
Berner Kantonalbank	Bern	18	1,550
Banque Cantonale de Genève	Genève	17	920

Source: *Handelszeitung* (as of 30th Swiss companies)

similar restructuring of its domestic Swiss networks. Then, last August, Credit Suisse moved again with an agreed SF14.3bn bid for Winterthur, Switzerland's second biggest insurer. The deal, creating one of Europe's top five financial services companies, was designed to capitalise on the blurring of the lines between banking and insurance.

Mergers and acquisitions in neighbouring countries are creating financial services groups of impressive size, and Rainer Gut, Credit

Suisse's long-serving chairman, believes that "only a few, truly global, first-class companies will be able to hold their own in this competitive environment". The Winterthur deal was designed to ensure that Credit Suisse is one of those companies and fulfil Mr Gut's ambition for Credit Suisse to regain its position as Switzerland's number one bank by overhauling its arch rival.

However, less than four months after the Winterthur deal, UBS and SBC announced their merger and dislodged Credit Suisse from the top spot. George Blum, SBC's chairman, said that there were still too many banks in Switzerland for the country's size and the merger would solve the problem of inadequate domestic profitability. Internationally, neither of the two banks had the individual strengths needed to succeed in the long haul, said Mr Blum.

Nevertheless, the speed with which UBS, the bigger of the two banks, abandoned its independence, and allowed SBC executives to fill most of the top jobs

remains one of the unsolved puzzles in Swiss banking. True, UBS seemed to have lost some momentum and its chairman had made a number of public gaffes. But both Credit Suisse and SBC had been through equally shaky patches over the past decade and recovered.

There is no reason to believe that UBS, which is much better capitalised than the other two banks, could not have regained its old momentum. The suspicion remains that UBS decided to join forces with SBC because it feared that Credit Suisse, which had made an abortive merger offer in early 1996, might make another overture. Martin Ebner, Switzerland's best-known corporate predator and UBS's biggest shareholder, had been highly critical of UBS's management and there had been rumours that he might join forces with Credit Suisse, where he is also the biggest shareholder, to bid for UBS.

Whatever the truth of these rumours, Switzerland now has two big banks pursuing very different strategies, unlike 10 years ago. Credit Suisse is intent on becoming a leading "banker", while UBS is going in the opposite way. Meanwhile, both banks are losing their exclusive Swiss image as the centre of gravity of their international operations swings away from Switzerland and towards New York and London.

The shake-up at the top of Swiss banking is rippling through the rest of Switzerland's banks. The number

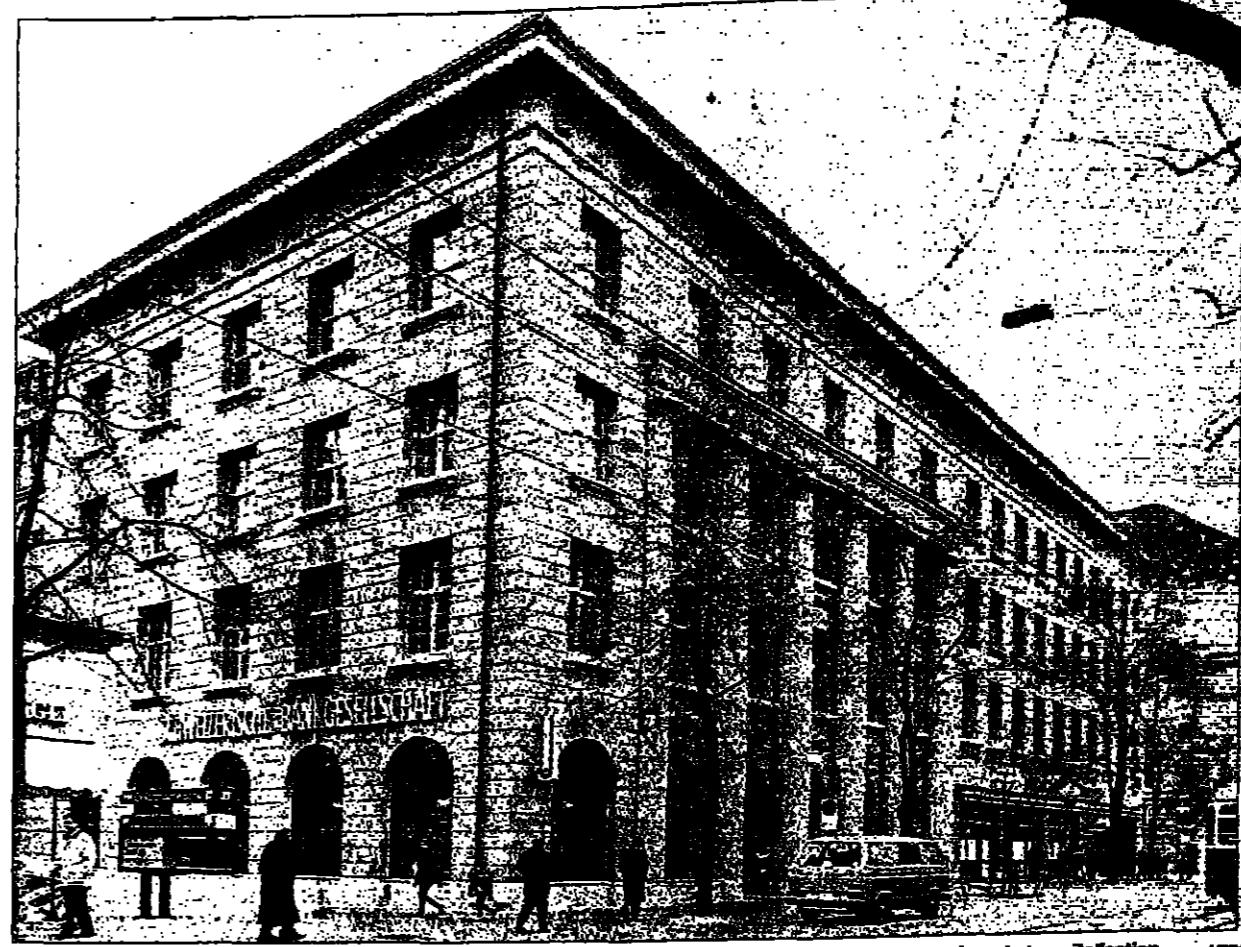
of Swiss banker, have done wonders for the share prices of Swiss banks over the past year. However, one outstanding issue still casts a cloud over the Swiss banking sector - the question of the unclaimed accounts of holocaust survivors.

UBS recently disclosed that although it had set aside SF133m for its contribution to a "humanitarian fund for victims of the holocaust", it had spent twice as much again last year on re-checking its files for dormant accounts and the legal expenses to fight a multi-billion dollar US class action from holocaust survivors.

The Swiss banks as a group, have probably spent at least three times as much as UBS trying to clear their name.

Nevertheless, there remain persistent rumours that the Swiss banks may still have to agree to some sort of "global settlement" if they are to put the dispute behind them.

Edgar Bontmann, president of the World Jewish Congress, has suggested a \$3bn figure. The Swiss banks have dismissed this figure as ridiculous, but given the amazing events of the past 12 months it would not be all that surprising if the big two Swiss banks did have to dig deeper in their pocket to resolve a problem which has been haunting them for years.



UBS in Zurich - following the merger with SBC the new bank will be among the world's top five in terms of market capitalisation

PROFILE Bénédic Hentsch

Time to take a stand on assets

Ask most Swiss bankers why Switzerland is number one in private banking, and they will explain at length about Switzerland's neutral reputation, the quality of its banking services, and its banks' superior investment performance. But not Bénédic Hentsch, 49, managing partner of Darier, Hentsch, Geneva's oldest private bank.

"Let's call a spade a spade," Mr Hentsch told a recent investment seminar. Swiss banks would not be number one in private banking were it not for the country's bank secrecy laws. He stresses that a banker's obligation to maintain banking secrecy has always had to yield to other legal requirements. But the recent evolution of criminal law has progressively reduced the scope of Swiss bank secrecy. New laws on insider trading, money laundering, on the failure to exercise vigilance in connection with financial dealings, on manipulation of securities prices, are all

chipping away at Switzerland's "enormous competitive advantage" in the area of client confidentiality.

"The time has come to take a stance and defend in a lucid and resolute manner an asset of which the country may be proud and which it cannot do without." He is equally worried about threats to introduce a Swiss capital gains tax or a tax on deposits. "In this country you cannot build a ski-lift without submitting a voluminous environmental impact plan." As a mountain biker, he is all for protecting Switzerland's squirrels and marmots, but he would like to see the same attention given to preparing weighty "financial environment" impact studies before a new tax is introduced. There have been too many examples when taxes were introduced for short term fiscal reasons and markets disappeared instantly.

"Let's face it, 'Finanzplatz Schweiz' is no longer the

which to convince the Swiss government that more, rather than less, needs to be done to strengthen "Finanzplatz Schweiz". When it comes to Switzerland generally, he is equally critical. "We Swiss were sure we could save the world. We were convinced that we were better than the others and unaffected by what was happening outside. The world should only look at us - this is island of prosperity - and apply diligently our recipes in order to be rewarded with eternal peace, prosperity and happiness," Mr Hentsch told a recent seminar.

This huge contradiction between reality and our theories, was not a problem as Switzerland shared out the spoils equally. But in 1997 Switzerland finally fell off its privileged perch. Mr Hentsch regards Credit Suisse's acquisition of Winterthur and the UBS/Swiss Bank Corporation merger as "seismic events" in Switzerland which demonstrated that the

Swiss could no longer ignore what was going on elsewhere.

Such challenges call for a fresh approach. When French-speaking Switzerland had to field a candidate to replace Jean-Pascal Delamuraz, Switzerland's outgoing economics minister, Mr Hentsch tried to persuade Georges Blum, the retiring chairman of Swiss Bank Corporation, to apply. If US investment banks like Goldman Sachs and Merrill Lynch can produce US treasury secretaries, asks Mr Hentsch, why cannot Switzerland do the same?

Mr Blum declined, but Mr Hentsch is convinced that Switzerland must harness the energy of the growing cadre of Switzerland's international executives to help solve the country's growing problems. Who knows, one day Mr Hentsch himself might throw his hat in the ring. If he did, Swiss politics would be more fun.

W.H.

offshore financial centre it was in the past," says Mr Hentsch, 49, who sits on the boards of Swiss Re and S&T Group. The combination of booming bank profits, record share prices and big cuts in the domestic Swiss workforce of the big three banks makes him nervous. It is not an ideal environment in

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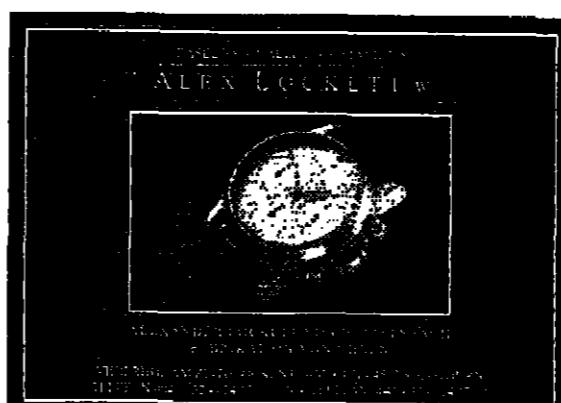
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16. AUFSENVORSTADT

LES FILS DREYFUS & CIE
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MAISON FONDÉE EN 1813

Swiss from other cantons tend to sigh at the mention of the name Zug. "Ah, the tax paradise," they say referring to Switzerland's smallest full canton. With an area of only 240 square kms and a population of around 90,000, Zug is known as a canton which bends over backwards to provide an attractive location for both Swiss and multinational companies.

The number of companies domiciled in canton Zug has almost doubled over the past 20 years to approximately 16,000 (the majority of them foreign-owned). It also punches well above its weight in various specialised fields. For example Zug ranks third in the world as a commodity trading centre and there are no signs of its impetus slowing down, indeed, the evidence of the 1990s suggests the opposite even within Switzerland itself. During this decade, Shell, BP and Unilever have moved their Swiss bases from Canton Zurich to neighbouring Zug.

This is not an aspect of the canton's progress which the cantonal head of government Robert Bisig wants to make political capital out of. The opposite is the case for Mr Bisig who stresses that it is in the interests of Zug that its larger neighbour "remains the economic engine of Switzerland", with Zug enjoying a lot of the benefits. He also says that there are many other reasons why companies choose to be domiciled in Zug apart from low taxes.

The fact remains that tax lies at the root of the original emergence of Zug as a domicile for multinational companies. Back in the 1950s, Zug was not, Mr Bisig says, a particularly wealthy canton compared with its neighbours Zurich, Aargau and Lucerne. So the cantonal government set out to

make itself particularly attractive with a new tax regime offering various significant novel factors such as "privileged" taxation of companies controlled from abroad and with business carried on mainly outside Switzerland which bend over backwards to provide an attractive location for both Swiss and multinational companies.

The success of the policy is self-evident with international companies ranging from Glencore International to Rothmans of Pall Mall. It has also helped Zug avoid the worst of the recession in Switzerland. Unemployment is only 3.6 per cent - exactly the same as in 1995 and the lowest in Switzerland. But while Zug still also enjoys the lowest personal and corporate tax rates in Switzerland, the authorities lay particular emphasis that tax rates are not the only reason for the canton's success. Other cantons have copied various of Zug's tax ideas but Zug remains ahead of the field because it has an in-depth knowledge of multinationals and has developed a user-friendly atmosphere for foreigners. For example, Peter Kottmann who heads the economic promotion department of Zug, points out that the tax authorities treat the tax payer as a "client" rather than a debtor and reasonable solutions to problems are the order of the day rather than rigid enforcement.

Zug is also a place where people work and the authorities are keen that the canton has a liberal attitude towards employing foreigners in specialised capacities. The federal authorities place restrictions on this, but Zug is alone among the Swiss cantons in using up its full quota for foreign employees. Around 20 per cent of the 56,000 workforce is foreign. This creates a cosmopolitan atmosphere in Zug which has a particular charm for multinationals. Within 40 minutes striking distance from Zurich Airport, Zug is not a provincial backwater, but has a population which is 18 per cent foreign and includes people from more than 90 nations. A wide choice of schools is on offer and the canton has also used the availability of international expertise to enhance its appeal. For example in the training field, the formation of an Institute for Financial Services was an important development, as is, more recently, a "Techniker und Informatikschule" for training in the use of computer software.

So are there any problems in this "tax paradise"? People live and work there amid mountains and lakes (including, according to Mr Bisig, the richest man in Switzerland) and seem to have the best of all worlds. However, the small size of the canton places physical restrictions on expansion. There is a traffic problem in the town of Zug and the cost of living is high compared to the rest of Switzerland. Zug also has another potential problem. Its position as a magnet for foreign companies has also attracted interest from Eastern Europe (particularly Russia) and this means that corporate vetting and controls have to be increasingly vigorous.

Christopher Hill



EXPO 2001 • by Jean Schlegel

Cultivating a new style

Organisers are hoping to defuse myths about the conservative and staid Swiss

As the countdown begins on a huge placard at one of Lisbon's main traffic intersections showing the time remaining until Portugal's Expo '98 gets under way, the organising committee of Switzerland's Expo 2001 is already working at full throttle, and, most unusually for Switzerland, there is a woman at the controls.

Heading the undertaking, with a Sfr1.5bn budget, is Jacqueline Fendt, 46, a multilingual former Swiss swimming champion with a business track record. Certainly, under her management this Expo is going to be different from the five national exhibitions Switzerland has hosted during the past century. The emphasis will shift from typical Swiss parochialism towards a globally-oriented philosophy of "emotionalism".

"We Swiss always want to be perfect and that inhibits us in many ways," says Ms Fendt, and if the recent press conference given by her artistic director, Pipiotti Rist, is anything to go by, it may well defuse some of the myths about the staid and conservative Swiss. Appearing in a formal man's suit, the bow-tied Ms Rist began by quoting poetry, singing several bars from an old battle song, and telling provocative jokes. The Expo would be "a huge collective sculpture; a pulsating organism", and a "total sensory experience".

Ms Rist, 35, a former student at Vienna's University of Applied Art and Basle's Design School, will be in charge of the 250 events and 200,000 presentations which

will take place under the Expo umbrella during 23 weeks. More than 15m visitors are expected.

Money will not change hands. Instead all transactions including entry will be by bankers' cashcard. A decision to exclude all other ideas has been criticised as favouring the banks over industry. In particular, Swatch, Switzerland's most successful watch brand, had wanted to offer its souvenir "Access" watch, containing a chip with a remote control door opener, as will be used

However, according to Expo finance director Rudolf Baumgartner, the watch cannot be used simultaneously for payments.

National interests will not be done away with entirely as Ms Fendt's skill in the choice of venue shows: the four sites in Neuchâtel, Biel, Yverdon and Murten are in an area where the two main languages of Swiss-German and French meet.

Outsourcing is almost being implemented as with the order for the 20 French-built catamarans, each seating 400 passengers, to ply the three lakes and Switzerland's longest navigable waterway of 257 kilometres, around which the exhibition will take place.

Jacqueline Fendt, or Madame Expo as she has become known, envisions Expo as a "creative, future-oriented workshop" allowing every Swiss citizen the opportunity of submitting a project proposal for evaluation by the relatively small committee, of which a large proportion are women.

Ms Fendt is obviously enjoying her tour of the country in the role of Expo ambassador, infecting even the most sceptical with her charm and enthusiasm. As well she might, with Sfr195m of Swiss taxpayers' money at stake.

INDUSTRY • by William Hall

High quality ingredients with extras

More foreign executives are being hired as industries expand further afield

When it comes to a review of what makes Switzerland special, it is easy to overlook the contribution of its industrial sector. Switzerland has plenty of banks, some of the finest chocolate, and is known for its watchmaking skills. But it is not renowned as being the world's leading producer of computer mice or infertility drugs.

Swiss industry, like much else in Switzerland, suffers from a number of myths.

The first is that the strong Swiss franc has rendered large parts of Switzerland's industrial base hopelessly uncompetitive. The second is

that Switzerland is over-represented in the traditional "smoke-stack" industries, such as chemicals, but has missed out on high-tech companies.

True, the Swiss do not have a reputation for producing entrepreneurs. But the above-average sums spent on training and research and development mean that Switzerland's reputation as a country with high labour costs is offset by the quality of its labour force.

A glance down the list of Europe's leading companies shows up the importance of corporate Switzerland. The country is Europe's 22nd biggest in terms of population, yet in terms of headquarters of Europe's top 500 companies it ranks fourth behind the UK, Germany and France. Three of Europe's top 10 companies are Swiss -

Industries where Swiss companies are world leaders

Industry	Company	Market capital
Food	Nestlé	101
Pharmaceuticals	Novartis	184
	Roche	162
	Ares-Serono	8
Specialty chemicals	Ciba	12
	Clariant	11
Electrical engineering	ABB	18
Textile machinery	Saurer	2
	Höfer	2
	Sulzer Rüti	1.8
Cement	Holderbank	10
Watches	SWATCH	7
Elevators/escalators	Schindler	3
Temporary employment	Adecco	8
Testing and inspection	SSS	4

Source: FT research based on Nestlé and Saurer market capitals, March 1998

Novartis, Roche and Nestlé. By contrast, the list contains only one German company, the insurance group Allianz.

While international attention is often focussed on the important role of Switzerland's banks and insurance companies, few realise that when it comes to world class companies, industrial Switzerland has far more global businesses than the financial sector. Novartis is the world's third biggest pharmaceutical company and Roche is the eighth biggest. ABB, the Swiss/Swedish engineering giant, is one of a handful of multinational electrical engineering giants. Holderbank is the world's biggest cement company. Schindler is second only to Otis of the US in the elevator world, and the recently floated Ciba Specialty Chemicals and Clariant are leaders in their particular sectors of the global chemical industry.

Switzerland is number one in textile machinery and the third biggest exporter of machine tools. Adecco is challenging Manpower for the US for the title of the world's biggest temporary employment agency and Société Générale de Surveillance is the world's biggest testing and inspection company, employing close to 40,000 people of which all but a few hundred work outside Switzerland.

Swiss industry is in surprisingly fine fettle given that the local economy has been in semi-recession for seven years and the Swiss

Deutschmark, the currency of its biggest trading partner. This is partly because the most successful Swiss companies have long outgrown their home market. Only about two per cent of Nestlé's sales are in Switzerland; exports account for 33 per cent of Swiss watch sales and 70 per cent of Swiss machinery sales.

The strength of the Swiss franc has taken its toll on profit margins, forcing Swiss companies to restructure in order to survive. Publicity surrounding the shakeout in the Swiss banking sector has overshadowed equally dramatic restructuring in large parts of Swiss industry.

Admittedly, there remain some well-known old engineering conglomerates, such as Sulzer and Oerlikon-Bührle, which still need restructuring. Many of the more traditional engineering companies, however, such as Georg Fischer and Saurer, are already benefiting from the painful medicine they took in the early 1990s judging by the dramatic earnings increases for 1997.

Swiss companies, because their domestic market is small, have had to expand overseas in order to survive. They have a much greater tradition of international business than many of Germany's medium-sized companies and have benefited from longer investment time horizons than their Anglo-Saxon competitors. The importance of low Swiss interest rates in providing cheap finance should not be underesti-

mated, nor should the benefits of the excellent Swiss education and apprentice systems.

The Swiss are not averse to hiring the best executives for the job, even though they may not be Swiss. The chief executives of Nestlé and Roche, for example, are Austrians. Alusuisse is headed by a Canadian/Italian, Adecco by an Englishman, and ABB by a Swede.

As one senior Swiss executive recently put it, Switzerland is a small but rich country and there are not enough good Swiss executives to go round. The fact that many of these companies have swallowed their pride and hired foreign managers helps explain the above-average success rate of corporate Switzerland.

EUROPE • by Frances Williams

Splendid isolation can be expensive

The centre of gravity is swinging towards New York and London

The Swiss are discovering that their self-imposed isolation in Europe is not so splendid after all.

Since 1992, when Swiss voters narrowly rejected a pact joining Switzerland with the European Union's single market, the Swiss economy has been the worst performer in western Europe. Though some if not most of this is Switzerland's own making, remaining outside the 18-nation European Economic Area has certainly not helped.

According to the Association of Swiss Machinery Manufacturers, the EEA refusal has cost Switzerland's biggest export industry Sfr195m annually in lost exports because Swiss companies continue to struggle

with customs formalities and differing product standards abolished for EEA rivals.

While 70,000 machine-making jobs have been lost in Switzerland in the past five years, two to three times as many have been created abroad by Swiss companies.

Total Swiss direct investment in Europe has trebled since the EEA vote, while inflows from abroad have shrunk dramatically.

Swissair, the national carrier, estimates that exclusion from Europe's liberalised air transport market is costing it some Sfr200m a year.

Meanwhile, the big Swiss banks and pharmaceuticals companies complain of the difficulties in hiring skilled foreign workers and of transferring Swiss nationals to EEA subsidiaries.

For ordinary Swiss, especially the young, the disadvantages of their isolation in the heart of Europe are becoming increasingly irksome. These range from

restrictions on their ability to work and study freely in Europe to finding themselves in lengthy queues at European airports alongside non-Europeans while EEA tourists whizz through the formalities.

Now that all Switzerland's EU neighbours are members of the Schengen agreement scrapping controls on movement within the group, checks at the border are getting tougher, affecting tourists and Swiss nationals.

To overcome these disadvantages, Switzerland has a policy of aligning its legislation and standards to EU standards where possible, even though it has no say in fixing those standards. Three years ago the Swiss government also opened bilateral talks with Brussels in the hope of gaining better access to EU markets.

However, these talks, which cover road and air transport, the free movement of people, public pro-

urement, research and development, agriculture and technical barriers to trade, are still bogged down by Switzerland's bid to restrict the number of 40-tonne EU trucks thundering through its Alpine passes.

The Swiss have agreed to phase out their 26-tonne lorry-weight limit by 2005 and put in place a non-discriminatory lorry charging system. In January Swiss negotiators and the European Commission reached a provisional accord on an average charge of Sfr728 for a 40-tonner to transit Switzerland on the main north-south route from Germany to Italy. For the Swiss, this is the minimum charge that, coupled with increased subsidies to the railways, can fulfil the terms of a binding 1994 referendum decision requiring transit freight through the Alps to shift from road to rail within 10 years. But EU transport ministers this month failed to approve the

deal, arguing that the charge was too high.

However, Switzerland's European woes are not just economic. In a rethink of post-Cold War defence needs, a commission chaired by former Swiss diplomat Edouard Brunner said bluntly last month that Switzerland's traditional neutrality and its militia army were irrelevant in the face of new threats, such as organised crime and international terrorism.

The best protection for the country would be EU membership and even membership of the Nato alliance, the commission said. Switzerland joined Nato's Partnership for Peace in December 1996.

"Swiss independence no longer consists of building a wall around one's own garden and defending it from outside attacks," Flavio Cotti, foreign minister and this year's holder of the rotating Swiss presidency, said in a recent interview.

He, the rest of the Swiss government, and most of the Swiss business and financial establishment, back eventual EU membership. But the 1992 referendum result, which led to a freezing of Switzerland's formal EU application, has made them wary of yet another rebuff.

Though opinion polls show a small majority of Swiss now favour EU membership, this may not be enough to carry the day in a national vote since opposition to the EU is concentrated in the rural German-speaking cantons which have disportionate weight.

Nevertheless, two-thirds of those questioned in one recent survey said they expected Switzerland to be inside the EU early in the next century. "People see that they are isolated internationally but no longer truly independent," says Lukas Brunner, general secretary of the pro-European Swiss European Movement.

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6 SWITZERLAND

THE SWISS ARMY • by William Hall

Armed for the improbable

400,000-strong, yet the army is no longer much use in confronting today's threats

"The number of trained and armed troops Switzerland can mobilise exceeds - at absolute numbers - that of most European countries." Report of the study commission on strategic issues, February 1998

The Swiss take their defence very seriously. Every healthy Swiss male has to contribute to the country's security by serving in the part-time militia until the age of 42. He is required to do a minimum of 300 days military service and keep a rifle and ammunition at home in case Switzerland is attacked.

The Alps are honeycombed

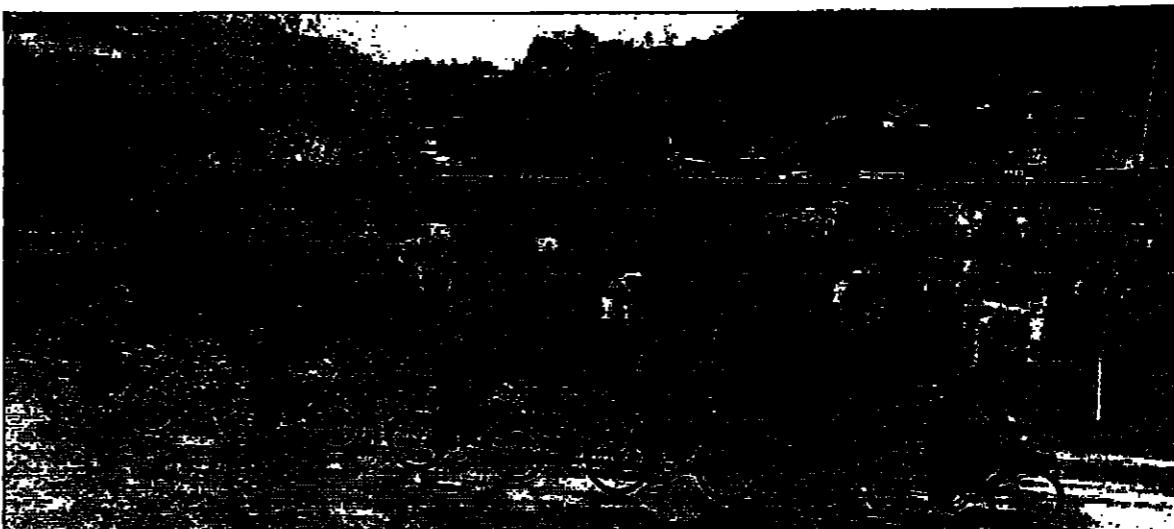
with storage bunkers and underground hospitals with thousands of beds in a permanent state of readiness. Switzerland has one of the best-equipped fighting forces in the world with everything from the latest F/A-18 jet fighters to a mounted bicycle corps. Swiss trains are filled with weekend soldiers travelling first class.

It is hard to believe that the last time Switzerland fought (and lost) a major battle was against the French at the battle of Marignano in 1515, and the Swiss army has only been called up to man the country's borders four times in the past two centuries.

The Swiss army is a conundrum. Its soldiers are not taught how to attack, but only how to defend, and only in time of war is an army chief of staff appointed. Nevertheless, the Swiss regard themselves as a nation of warriors, dating back to the Middle Ages, when up to 2m Swiss mercenaries roamed Europe. Until recently young Swiss were brought up to believe that had it not been for the Swiss army, their country would have been invaded by the Nazis in the second world war.

The army is one of Switzerland's few symbols of national identity and crosses the linguistic divide. It is in one sense a great leveller, bringing together people from all social strata, and in another way it is the closest thing Switzerland has to an "old boys' network".

Only recently have senior Swiss executives started omitting their army ranks from their curriculum vitae. Indeed, when Mathis Cabial



The Swiss army is the closest thing the country has to an "old boys' network"

Photo: Jasper Dijck/Pressphoto

lavetta took over as chief executive of UBS, there was surprise that he had only attained the rank of private in the Swiss army. Traditionally, UBS' chief executives have been colonels at least. So it has come as a shock for many Swiss to learn that its 400,000 strong militia army, backed by 150 jet

fighters and 2,000 plus tanks, is no longer much use in confronting today's military threats. Last month, a bi-partisan commission studying the strategic issues facing Switzerland, concluded that Switzerland was "well armed with regard to dangers that have become improbable, but insufficiently prepared for the real dangers of today and tomorrow".

Switzerland no longer faces any likely threat from its immediate neighbours. So what is the point of having a standing army whose purpose is to defend Switzerland's borders with France, Italy, Germany and Austria?

Switzerland has cut its army by a third and its share of the federal budget is set to drop to 10 per cent, against 16 per cent at the start of the decade and more than a third in the 1980s. However, Switzerland's army faces a bigger shake-up than that envisaged by simple cost-cutting exercises.

The strategic study, headed by Edouard Brunner a retired diplomat, concluded

that the army was not equipped to fight the most likely threats - terrorism, migration flows, unchecked proliferation of nuclear, biological, chemical and electronic arms. Switzerland's economy has become more international yet its defence arrangements remain narrowly national.

Apart from recommending that Switzerland work much more closely with neighbouring countries, the Brunner report also recommended that the establishment of a "Swiss Solidarity Corps", consisting of specially trained and equipped

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